Glery Shirokov

The Industrial Revolution in the East

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PROGRESS PUBLISHERS
MOSCOW

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ПРОМЫШЛЕННАЯ РЕВОЛЮЦИЯ НА ВОСТОКЕ

На английском языке

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English translation © Progress Publishers 1985

Printed in the Union of Soviet Socialist Republics

Ш $\frac{0604030000-475}{014(01)-85}$ 51—85

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Preface

Even a person with only a casual knowledge of the economies of developing countries will be aware of their relative poverty and the fact that their national income per capita is many times lower than in capitalist states. This reflects enormous disparities in labour productivity in both groups of countries that are associated with differences in capital-labour ratio, i.e. with a prevalence of materialized labour in capitalist countries and living labour in developing ones. The higher capital-labour ratio in capitalist states has also activated a number of non-material factors that serve to increase labour productivity even more, such as improvements in the quality of labour, in management, and others that do not yet operate in the developing world.

In short, the economies of capitalist countries are currently based on intensive methods of production, while extensive methods continue to prevail in developing countries. The dominance of pre-machine forms of production and of the extensive methods that are associated with this is therefore a major cause for the unequal position of newly liberated countries within the international division of labour and within the world capitalist economy.

After former colonial and dependent countries achieved political independence the forces that came to power adopted an accelerated pace of economic growth and technical re-equipment. This resulted in a perceptible increase in the rates of growth of that group of states: modern industries began to develop rapidly, and in the 1960s machine production methods also began to be introduced in agriculture. It seemed as if developing countries were generally repeating the path that had been followed by Western Europe and North America in the 19th and early 20th centuries. In fact, however, possibilities for imitating the Western model of socio-economic and technical development proved to be lim-

ited, and already in the late 1960s the first symptoms of crisis became apparent. These included a decline in general rates of growth, greater imbalances among branches resulting from both their uneven development and specific features in the way in which national economies related to the world capitalist economy. Above all, however, there was a sharp intensification of all social contradictions—including levels of both open and hidden unemployment that were unprecedented in Western countries, a mass pauperization of the population, increasing disparities in the distribution of national incomes, etc. The structural crises of the 1970s—the energy, raw materials, currency and financial crises—increased the instability and contradictions in development of that group of states, thus further stimulating their growing economic and socio-economic differentiation.

Both ruling circles of capitalist and developing states and scientific researchers of the most diverse schools have voiced growing doubts concerning the ability of the approach suggested by the Western model to effect a socio-economic and technical transformation of newly liberated countries. This was clearly evident in the discussions that summarized the outcome of the Second Development Decade (1970s) and the drafting of a strategy of development for the Third Decade (1980s). In spite of differences in formulating problems and in selecting issues to be discussed two major issues continued to dominate the discussions, namely, how closely socio-economic transformations are associated with a technical modernization of economies, and what are the possibilities of and limits to using modern equipment and technology in conditions where internal markets are narrow, in which there is a growing unemployment, and in which there are waves of a new protectionism in Western countries.

In defending their propositions the participants frequently cited the experience of Western countries, especially in the period of their industrial revolutions (industrial transformations). And depending on their national, political and other affiliation that experience was either cited as an example to be emulated or rejected. The very same facts, moreover, were frequently addressed in defending diametrically opposed points of view. It is that discussion that led the author to write the present study.

The increasingly rapid socio-economic and technical transformation of developing countries, together with their in-

creasing differentiation, confront economists with a number of difficult questions. The most important of these concerns the path to be followed in the further socio-economic development of newly liberated countries. Clearly the general direction of socio-economic development is strongly influenced by external factors. But in the context of a general crisis of capitalism and of a growing influence of world socialism is capitalism as a formation able to encompass the majority of developing countries? The answer to that question appears to depend on solving still another problem: are local forms of capitalism able to "digest" traditional structures even with outside support? But the transformation potentials of a national capitalism as an emerging socio-economic system depend not only on its ability to provide for a greater labour productivity by comparison with traditional structures (that is in fact characteristic of all types of capitalist entrepreneurship), but also on its ability to involve the greater part of the gainfully employed population into capitalist production activities. That in turn poses a question on possibilities for introducing new technology and industrial production methods. For under conditions of mass unemployment and of a "demographic explosion" the introduction of new equipment and technology can produce additional obstacles to involving people currently employed in the traditional sector in capitalist production relations. Hence a necessity for a comprehensive approach to the evaluation of socio-economic and technical processes.

In seeking to answer these questions it was necessary to first analyze the experience of the industrial revolution in Western Europe and North America and to identify the factors that were especially favourable to its course. This provided a basis for establishing the causes that made it impossible for the industrial revolution to be completed in the colonial and dependent periphery before their political liberation.

But a major emphasis was naturally placed on processes taking place in developing countries after political independence. An analysis of changing political, economic and social conditions in the newly free states reveals different trends in industrial revolutions that reflect both conscious activities of states and spontaneous processes resulting from a disintegration of traditional structures as well as the influence of external factors. It is a study of all these processes that makes it possible to characterize the prospects and limits of industrial transformations in devel-

oping countries in their modern socio-economic and technical forms. This is the point which defines the structure of the present study.

To approach industrial transformations as a capitalist and technical renewal of economies results in a narrowing of the analytical framework. Since the industrial revolution in that term's classical meaning can take place only in countries in which capitalism is developing our own analysis will be limited to that group of newly independent countries that are effecting a technical reequipment of their economies on a capitalist basis. As for countries marked by a low level of development that have entered the path of socialism or else are following a socialist orientation, in which the activities of superstructures are aimed at removing or else avoiding the development of capitalism, the resulting developments differ from the industrial revolution. There the technical reequipping of economies ceases to be a function of capital. Accordingly they lie beyond the scope of our present analysis.

Beyond this a comparison of industrial transformations in countries of the West and the East can be justified only if they concern relatively similar aspects of development, i.e. the initial stages of an industrial revolution. The point is the transition in Western countries of a capitalism based on free competition into imperialism has generated processes that are not currently characteristic of most Eastern countries. But in addition it is also necessary to take into consideration the emergence of colonial empires in the initial period of the West's industrial revolution.

Finally, while we recognize the element of arbitrariness that results from dividing developing countries in terms of continents, that is, into the states of Asia, Africa, and Latin America, we can not overlook substantial socio-economic and technical differences. For a number of historical reasons the countries of Latin America are marked today by the highest level of development of capitalism and of industrial productive forces, while African countries below the Sahara have the lowest level of socio-economic and technical development of all developing countries. At the same time developing countries in Asia and North Africa, i.e. Eastern countries in that term's classical meaning, are characterized by a generally comparable level of socio-economic and technical development. It is this relatively homogeneous group of countries that we use in our analysis.

Yet in view of increasing disparities in the development of even that group of countries particular emphasis was placed on identifying the most general objective principles that govern their development.

The wide diversity of problems that are considered and the chronological breadth of the analytical framework make it difficult to carry out a comprehensive analytical study, at least for a single person. This is why the present study is primarily concerned with establishing a number of general characteristics. Since numerous aspects of this topic have been elaborated in Soviet economic literature such generalizations should make possible a further advance in identifying objective principles governing the economic development of Eastern countries.

CHAPTER I

The Industrial Revolution in Western Countries

The industrial revolution represented a major structural shift in the development of European states. That is why a very large number of studies have been devoted to its development and its economic, social, technical and other consequences. Newly discovered archive materials, generalizations of earlier accumulated information and application of new methods of data analysis are also continually adding to our knowledge and amplifying it.

The author's decision to touch upon the history of the industrial revolution in Western countries, however, is not prompted by any wish to either contribute further to existing findings or even generalize accumulated materials. Rather it is to note those phenomena that differ most from corresponding processes in developing countries. Such an approach does not require a well integrated and rigorous exposition of the industrial revolution in the West and even may result in the omission of important elements that a concern with the essence of that processes would require but is nevertheless useful in noting the specific features of industrial transformations in Eastern countries.

* * *

In the perspective of Marxist political economy an industrial revolution (transformation) is viewed as an interaction of two processes—one that is technical with one that is socio-economic. On the one hand, manual labour is replaced by machine labour. As a result large-scale machine production in factories destroys early capitalist forms of industrial production—household production, pre-machine manufacturing—and becomes the dominant type of production. At the same time the transformation of means of production and the introduction of machines effects a trans-

formation of all social relations that contributes to the establishment of a new capitalist mode of production.

These two processes are mutually interrelated because, on the one hand, only capitalism brings about the socialization of production that the use of machines requires, while on the other, the new production forces themselves destroy precapitalist production relations, making possible an expanded reproduction of capitalism. Yet these two processes interact indirectly.

In particular their interrelation was influenced by the size of markets, of capital and of labour power, demographic and technological factors and by the price and value of labour power. For example, the existence of a relatively large market for cotton textiles resulted in a rapid transition of that sector to machine methods of production, while in the silk industry, which served a relatively limited social layer of wealthy persons, the transition to machine modes of production was delayed by 30-40 years. Similarly an important role was played by technical difficulties in resolving particular problems. This is reflected in the fact that a transition to machine methods of production within industrial factories was far from simultaneous. Finally, the low cost of labour power and its relative abundance, as for example in Eastern European countries, delayed the application of machines and kept individual branches at the level of traditional production methods. Conversely the relatively high cost and price of labour power in North America, resulting from its shortage in the middle of the last century, stimulated the application of machines. That is why there were variations in the intensity and speed of both processes at intersectoral and intrasectoral levels.

From both a socio-economic and technological point of view industrial transformations were completed when a transition was achieved from the manual production of machines to their production with the help of other machines, for only in the latter way is an adequate basis formed for capitalism's further development. Chronologically the completion of industrial transformations in Western Europe's and North America's major countries (in "industrially mature" countries, according to UNIDO's terminology) occurred towards the middle of the 19th century, while in a number of other industrial states—including Japan and Italy, it was completed only in the early twentieth century.

The historical experience of Western European countries and of North America shows that initially a general transition to machine methods of production lagged behind the development of capitalist relations. But following the completion of the industrial revolution precapitalist forms of production were either destroyed or else reduced to a minimum, i.e. industrial production became a thoroughly capitalist sector. At the same time capitalist industry acquired a dominant role within the volume of production, and the number of persons employed in it gradually also increased, thus allowing it to exert a system-forming influence with regard to the entire economy. It began to transform other sectors of the economy in accordance with its own image: as it conclusively destroyed the linkage between agriculture and cottage industries it contributed to the final ruin of the lower layer of agricultural producers and to the development of capitalist agriculture. By sharply increasing and concentrating transportation flows it transformed transportation itself from an auxiliary occupation of small-scale producers into a highly mechanized sector of the economy organized along capitalist lines. As a result the completion of the industrial revolution marked the final assertion of capitalism as a dominant mode of production within the given economic system, and this is why the development of capitalism subsequently continued to proceed more rapidly than did mechanization. In addition possibilities appeared for shifting entire economies to machine methods of production.

The Duration of the Industrial Revolution

Even though by the time of the completion of the industrial revolution manual labour continued to prevail in most industries, the technical reequipping of remaining ones during the second half of the 19th century and the first half of the 20th century should apparently not be viewed as stages of the industrial transformation itself. Following a social revolution that transforms capitalism into the dominant mode of production this leads to a gradual transformation of remaining precapitalist relations, first into transitional ones, and then into capitalist relations. This is why in other, non-industrial economic sectors one observes not a simultaneous transformation in their mode and methods of production, but rather a situation in which

a technical transformation catches up with a socio-economic one.

In such a context one may identify four chronological stages of the technical reequipment of the national economies of Western Europe and of North America: in industry (this coincides with the industrial revolution); in transportation and communications; in agriculture; and in the sphere of services and of circulation.

During the first half of the 18th century the productivity of labour in Western European industries was substantially lower than that of agriculture. This is explained by the fact that in primitive precapitalist modes of production human labour interacts with forces of nature, but in the case of industrial production nature's forces must be nearly fully replaced by living labour.

For example, in the case of Great Britain the net product of a worker in non-agricultural material production at that time was 9 pounds per year, while in agriculture it was 18.3 pounds. [1] In such a context an increased demand for manufactured goods deriving from a more rapid population growth, an increasing differentiation of incomes, and early uses of improved means of production in agriculture could be expected to result in a redistribution of the able-bodied population into the least productive spheres, and hence in a reduced rate of growth of social production. That is why machine production methods were first introduced in manufacturing sectors.

Since manual labour had prevailed by the time of the industrial revolution while the volume of accumulated means of production was negligible, the amortization fund was modest and the accumulation fund would have to consist primarily of consumer goods. As a result the gross social product consisted primarily of consumer goods. Accordingly, social expenditures could only be reduced by introducing machines, first of all into light industry. This explains the emergence of factories in the cotton textiles industry in the last third of the 18th century, and the priority development of the factory system in light industry during the subsequent 40-50 years. At the same time the development of factories, which was accompanied by a replacement of water power by steam power and of wooden machine parts by metal parts contributed to a gradual increase in the output of heavy industry. But it was the development of mechanized means of transportation that provided the strongest impulse to the

development of heavy industry. The appearance of branches of heavy industry based on systems of machines, and the beginning of a continuing production of "machines by machines" thus marked the completion of the technical transformation in industry.

The technical reequipping of transportation required a longer period of time than that of industry. Although the invention of steamships and of locomotives occurred early in the 19th century, a wide introduction of such a universal means of transportation as the automobile was completed only in the 1920s. In short the technical reequipping of transportation lasted an entire century. There are two striking factors in that prolonged process.

The steamship became the first power-driven transportation. This appears to have been accounted for by both a smaller amount of initial capital investments in developing water transportation systems than in the case of railway transportation, and also by the development of international trade, which proceeded more rapidly than production itself. In other words the introduction of power-driven transportation resulted primarily from the needs of an international division of labour. At the same time the emergence and rapid development of railway transportation coincided with the completion of the industrial revolution. Railways first appeared in those countries in which large-scale machine industries had attained their greatest development, namely in Great Britain, the United States, Belgium, and France, for large-scale industries require the establishment of adequate means of transportation. On the one hand only the development of heavy industry could supply such a material-intensive sector as power-driven transportation with the required elements of fixed and circulating capital, and on the other, the development of heavy industry itself, which required large-scale transportation services, called for the development of less expensive and more rapid methods of transportation.

The technical reequipment of agriculture represented an independent stage in nearly all of today's developed capitalist countries. Its initiation was greatly delayed. Even though in most countries of Western Europe and in North America agriculture was increasingly transformed into a sector that was organized on a capitalist basis in the 19th century, technologically it remained at the stage of manual production. The application of individual machines in that sector

did not produce an integral system of industrial labour activities. This appears to have been associated both with social and technical factors.

First, the use of mechanical equipment drawn by draft animals yielded only a relatively modest gain in labour productivity. The resulting increased productivity in cultivating fields and the use of draft animals called for increased expenditures in producing fodder and caring for the animals. At the same time the replacement of draft animals with cumbersome steam engines in agriculture which could also be the cause of fires, proved to be practically impossible: it was only in milling grains that steam engines came to be used on any substantial scale. It was only after the invention and introduction of internal-combustion engines that a transition from hand production to machine-based one became possible in agriculture.[2] That, however, occurred only late in the 19th century.

Secondly, even under capitalism agriculture was marked by a relatively slow displacement and financial ruin of small-scale producers, particularly in such countries as Belgium, France and in the western regions of Germany. The small-scale producer was inherently unadapted to the use of systems of machines. Corresponding impediments included an insufficient level of centralization of capital, and the modest size of land holdings owned by small-scale producers as well as still other factors. Finally, private landownership impeded the development of large-scale agricultural enterprises through the merging of adjacent land holdings. As a result centralization often took place through the purchasing of scattered land parcels. The use of machines on farms consisting of several land parcels in different locations was not always economical. This is why a transition to the use of machine systems in agriculture was extremely prolonged: while in the United States it was largely completed by the beginning of the Second World War, in the case of Great Britain and France this occurred only in the early 1960s.

The fourth stage in the technical reequipping of economies and the one that is apparently most complex is a transition to the use of machines in the sphere of services and of circulation. Because this had to be preceded by a growth in the share of industrial services and the concentration of a growing part of the population in cities, as well as a change in the structure of personal consumption marked

by an increase in the share of expenditures on durable consumer goods, it emerged quite late—only after the First World War. Impediments to this development included both the large diversification in the sphere of services and circulation and the increasing differentiation of incomes that produced a specific and relatively limited demand for particular types of services. As a result the transition to the use of machine systems in that sphere is not yet completed.

Although the industrial restructuring of the entire system of productive forces in the developed capitalist countries of Western Europe and North America is not yet completed a new layer of development is being superimposed upon it, since the 1950s, namely the revolution in science and technology. Because "the scientific and technological revolution is a radical qualitative transformation of productive forces resulting from the merging of revolution in science and revolution in technology and from the transformation of science into a direct productive force," [3] there is a sense in which it represents a negation of the entire preceding industrial stage of social development. In such a context the incomplete character of the technical reequipment of economies loses its former significance.

It should be noted that the stages of technical reequipment of economies that have been identified above are somewhat arbitrary. Only in Great Britain—the classical country of capitalism—are the boundaries dividing these stages clear and well ordered. There a technical transformation in the field of transportation constituted a logical continuation of a transition to the factory system, while the technical reequipment of agriculture began after the introduction of systems of machines into transportation. In countries that have entered the industrial revolution in the 19th century, on the other hand, one does not find such clear boundaries between each stage. [4] There a technical reequipping of transportation constituted a new layer over the introduction of the factory system in industry, and the beginning of a reequipping of agriculture represented a similar layer over the reequipping of transportation. Still an interval of about 20-30 years separated the beginning of each of these stages.

The technical reequipping of national economies was accompanied by a specific restructuring of socio-economic relations. A successful industrial revolution also implied the termination of forms of capitalism based on manual produc-

tion activities (sometimes called manufactory capitalism) and a full development of laissez-faire capitalism. The completion of the second stage of technical reequipment (in transportation) coincided with the transformation of laissez-faire capitalism into imperialism. Finally, the last stage in the technical reequipping of national economies proceeds under a strengthening of state-monopolistic tendencies.

In this way the industrial revolution and the technical reequipping of economies in Western European countries and of North America were gradual and prolonged—they required nearly two centuries. Such a gradual transition was made possible by two factors. On the one hand the low technical level of early enterprises and their relatively small number made it possible for machine industries to interact, for a while, with branches based on traditional means of production. At the same time a growing disproportion in the development of individual sectors (especially between industry and agriculture) had to be increasingly balanced through an expanding international division of labour. It is precisely in the second half of the 19th century that a rapid increase took place in imports of food and agricultural raw materials into Western European countries from colonies and dominions and also from countries of North and South America.

The sequence in which technical reequipping took place and its duration also exerted an enormous influence on the major macro-economic parameters of Western countries.

First, they facilitated the accumulation of capital. Indeed, since the technical reequipment of individual branches of the economy took place in a specific sequence it could proceed on the basis of an intersectoral reallocation of accumulations and of capital. It would appear that the basic financial and material resources were concentrated, at each stage, in sectors experiencing the most active technical and technological reequipping. This is why the accumulation rate remained relatively low in the course of industrial transformation and technical reequipping even though its magnitude could vary substantially.[5] The reverse side of that process was a relatively large value of the personal consumption fund: its size increased in direct proportion to increases in the social productivity of labour. This produced a continuing increase in the scale of internal consumption and hence a widening of markets for local industries.[6]

Secondly, in Western European countries and North America the very conception of an "industrial revolution" resulted from the fact that a technical reequipping first occurred in manufacturing and created conditions in which machines were produced with the help of machines. This meant that a material basis was being established for a subsequent technical reequipping of other branches of the economy and for self-sustained growth. Such a basis served to increase the effectiveness of social production, for it made it possible to take into consideration most fully national, climatic, geographic, demographic and other factors.

Third, the gradual and prolonged character of the technical reequipment of economies in today's industrially developed capitalist countries also implied a gradual step by step increase in the organic composition of capital within their economies as a whole. It would appear that this produced two consequences. On the one hand sectors based on manual labour (or else largely on manual labour) continued to operate for a long time. That implied a reduced rate of development of branches of heavy industry and a dampening of the tendency towards reduced profit rate. As a result the economies of capitalist countries were characterized by a relatively low capital intensity of production activities, a rapid turnover of capital, and a relatively high profit rate. On the other hand the existence of sequences in the introduction of machines in individual branches also produced differentiated time patterns in the displacing living labour. In branches experiencing technical reequipment there occurred increases in the organic composition of capital and thus the displacement of living labour by embodied labour. Other branches, on the other hand, developing at the time through extensive methods, presented an additional demand for living labour. The continuous character of increases in the organic composition of capital produced a constant "surplus" of labour that made it possible to purchase it below its value. But the gradual course of technical reequipment impeded the development of a massive wave of unemployment that could create the threat of a social explosion and reduce the rate of technical progress.

Investment Barriers

In analyzing the industrial structures of capitalist countries emphasis is usually given to two poles, namely large-scale and small-scale enterprises (in terms of number of persons employed, volume of capital investments, or else value of output). Since the running of large enterprises is usually characterized by lower costs both in the sphere of production and that of circulation, an increase in their numbers reflects an increased effectiveness of social production. Moreover their very emergence and development constitutes one of the prerequisites for the development of monopoly capital. Yet it would seem that another approach is also justified, namely in terms of average-sized enterprises. Each industry is characterized by a specific level of equipment, a particular mode of transportation of its raw materials and of its final output, by specific markets, etc. Accordingly the size of production units in them differs greatly. In a given situation the average size of an enterprise reflects optimal conditions for the functioning of social capital in a specific country at a given time. At the same time the average size of enterprises influences the rates and proportions of a society's socio-economic and technical reconstruction. This is why the present section will be concerned with enterprises of average size in the age of industrial revolution.

During the industrial revolution itself and at the stages of the technical reequipping of a national economy its capitalist transformation and introduction of machines result in the ruin of precapitalist or early capitalist forms of production, cottage industries, crafts, and manual forms of manufacturing. These are replaced by factories. The need to service the installed steam engines, and to make full use of their capacity accounted for the relatively large size of enterprises, both in terms of the number of persons employed and of their volume of output. Increases in the size of individual enterprises were gradual, however, rather than leap-like. For the size of individual production units is governed by a number of factors including the level of concentration and of centralization of capital, the type of the currently prevailing technological equipment, the size of markets, the state of competition, and the state of development of transportation.

In most Western countries there were relatively few owners of large capital accumulated in the course of primitive

accumulation and during the hand-manufacturing stage of capitalism. In this respect Great Britain represented an exception, as did to a lesser extent, Holland. There the plundering of colonies and large-scale international trade resulted in the development of a large number of relatively substantial capitals. It should also be kept in mind that a relatively modest level of concentration of capitals was also accompanied by a low level of centralization. Let us recall that the system of joint stock companies with limited liability came to be widely used only in the second half of the nineteenth century, i..e. after the completion of the industrial revolution in Great Britain.[7] Still later—during the last quarter of the nineteenth century—bank credit appeared for expanding fixed capital in sectors of material production. In short throughout nearly the entire period of the industrial revolution the average size of individual capitals was relatively low, and this served to impede substantial increases in the size of enterprises as they effected a transition from manufactory production to machine production.[8]

Similarly the level of technical development also limited the size of enterprises. In the nineteenth century industrial plants were systems of machines consisting of a source of power, a transmission mechanism, and a working machine. Even though the industrial revolution began with the utilization of hydraulic power, by the middle of the nineteenth century it was largely replaced by steam power. At that time steam engines were cumbersome, not very powerful, and very uneconomical. Transmission mechanisms were with even greater shortcomings. After 1828 gearing was replaced relatively quickly by belt transmission possessing a larger efficiency, but even then as much as 80 per cent of the energy that was produced was lost in the process of transmission.[9] As the factories became larger the belt-transmission systems became longer and this increased corresponding energy losses.

These losses called for additional expenditures of fixed capital: the lay-out of machines in production shops was governed not by technological sequences of operation but by the energy intensity of particular machines. Finally the relative indivisibility of steam power held back the mechanization of many processes. As a result the energy-to-worker ratio was low. For example in manufacturing industry of the United States in 1869 it was 1.17 horsepower per

worker, while in Germany even in 1907 it was only 1.11 horsepower per worker. [10]

The limited character of energy capacities and the uneven character of technical progress resulted in a relatively slow evolution of working machines, and a prolonged preservation of many manual operations at factories at the time of the industrial revolution. A Soviet historian, F. Ya. Potemkin, shows in his description of the equipment of the cotton textile industry (which was the most developed and mechanized at that time) that was exhibited at the Paris World Exposition in 1849, that warping machines and machines for tying yarn as well as others were driven manually. [11] Moreover, in a number of other industries factories appeared only after the completion of the industrial revolution—in the late 1840s in the case of the shoe industry, and in the late 1850s in the case of the clothing industry. In short both the energy basis itself and the evolution of working machines during that period held back the growth of individual enterprises to their optimal size.

The development of markets was even more complex and exerted an uneven and contradictory influence on the size of enterprises. Already at a time of the industrial revolution itself there occurred a certain internationalization of the production linkages of such industries as cloth and cotton goods industries in Great Britain, and silk weaving in France. These industries imported either all or a part of their raw materials and sold their output not only on domestic markets but also on external markets as well. A specialization in export activities developed in shipbuilding in the United States and metal processing in Sweden. Such factors as the development of generally similar local production facilities in a number of Western European countries, together with corresponding protection measures by their governments, the growing intensity of the competition and improvements in means of transportation and the decline in transportation costs, and finally increased possibilities for importing similar commodities from Eastern countries resulted in the development of relatively large-scale competitive enterprises in these industries.

The situation was different in most other industries, which were engaged primarily in serving domestic markets. Above all at that time internal markets were characterized by a demand for small lots of goods inherited from the times of feudal particularity and expressed in relatively

limited (local, national, religious) demand. For example, in the United States in the early 1800s there was a demand for 4,460 standard sizes of shovels. [12] In short each enterprise had to adapt to the demand that existed on given markets. The low state of development of transportation and the high cost of transportation in regions that were distant from river and maritime routes held back the development of price competition. It should also be noted that throughout the first third of the nineteenth century engineering enterprises (at least most of them) were primarily engaged in meeting individual orders for non-standard products. [13] This led to the prevalence of relatively small-scale enterprises within that group of industries.

Thus in each country the average size of enterprises depended on combinations of particular groups of industries serving domestic and external markets. Since there occurred an accumulation of capital and an increase in technical levels in the course of industrial transformation, a gradual increase in the average size of enterprises could be observed. But it has already been noted that countries of Western Europe and North America experienced industrial revolutions at different times, and this produced differences in the size of existing enterprises in those countries. In addition the dominant position of Great Britain as "the world's industrial workshop" exerted a constant influence on the size of enterprises in countries entering into their own industrial revolution at a later date. This was attributable both to the importation of British equipment and the competition of British goods. ...

A relatively rapid increase in the scale of enterprises was characteristic for Great Britain. There were already relatively large capital funds in the country that were accumulated through international trade, in the colonies, and in the manufactories. In addition British industries passed through the different stages of industrial transformation in the most consistent sequence: from hand devices to machines driven by animals, then to hydraulic sources of power, and then to steam-driven factories. At each stage the number and productivity of working machines increased. Such a sequence contributed to an increasingly rapid accumulation of capital, and this allowed entrepreneurs to shift relatively painlessly from one stage of technical reequipment of industries to the next. Finally ramified network of canals was constructed in Great Britain during the eighteenth century, and this

Table

American Industries in 1850: Average Indicators *

Indicator	Per Enterprise	Per Worker
Number of Workers	7.8	—
Gross Output	8,283	1,064
Capital Employed	4,334	556
Wage Payments	1,924	247
Profits	1,849	237

* Calculated on the basis of data in E. L. Bogart, *The Economic History of the United States*, New York, 1916.

nearly halved the cost of freight transportation.

As a result large-scale enterprises appeared in the country relatively early. Indeed, by the end of the eighteenth century there were already several factories producing metal products, one machine building factory and several spinning factories employing a thousand and more workers each. [14] At the same time a very large number of small enterprises continued to exist, often of the manual production type. Unfortunately aggregate statistical data concerning British industry begin to appear only at the time of the completion of the industrial revolution that is in the 1830s. They also relate exclusively to sub-industries of the textile industry. But it has already been noted that the size of these enterprises was substantially larger than in industries serving the domestic market. This is why an analysis of statistical data relating exclusively to textile sub-industries may give an exaggerated picture of industrial progress and of the average size of enterprises. [15]

It is therefore appropriate to consider the industrial situation in the United States towards the middle of the nineteenth century (see Table). For beginning in 1840 an industrial census was taken every ten years in the United States that extended to all branches. Also by the middle of the nineteenth century the industrial revolution in that country was still far from completed.

One may assume that American industries differed from Western European ones in at least two major respects. First there was a larger number of enterprises engaged in the primary processing of agricultural raw materials as well as

relatively undeveloped transportation networks within a very large territory. This appears to have resulted in an average size of enterprises that was somewhat smaller than in Western Europe. In addition a wage level higher than in Europe defined somewhat different proportions between constant and variable capital as well as different proportions in distributing the net product. Still these figures make it possible to arrive at a number of conclusions.

First, in terms of value gross output per industrial worker was approximately eight times larger than was gross national product per capita. Such high proportion between these two indicators was explained both by a comparable labour productivity and a wide development of market relations that made it possible to consume such a large volume of industrial output. At the same time high rates of population growth (a relatively high natural population growth plus immigration) together with increases in labour productivity in other economic sectors led to a continuing expansion of the domestic market's absorption capacity, hence of possibilities for further industrial development.

Second, formally to establish an average-size enterprise at that time required investment expenditures that were equal to 17.5 years of a single worker's wages. But in view of the high rate of turnover of capital (the ratio of capital to output was 1 : 1.9) and of the low level of its organic composition (5.5 : 4.5) the sum of the initially advanced expenditures could be reduced by at least one half.

Indeed, given a short working period, circulating capital (the value of raw materials, auxiliary materials, and wages) can be reproduced from the regular sales of final output. Moreover, the development of a network of credit institutions providing loans for expanding circulating capital made it possible to reduce the volume of initially required capital still further. Finally if one assumes that it is possible to capitalize one half of the profits, as did a number of economists in the nineteenth century, than the annual rate of growth of output would be approximately twenty-one per cent. [16]

Third, the low level of the organic composition of capital indicates that the average enterprise at that time possessed relatively unsophisticated equipment. This made it possible to rely on skills accumulated by former craftsmen. In other words the problem of training cadres able to master the new technology did not create major difficulties.

Thus the relatively low initial level of enterprises that was characteristic of the starting period of the industrial transformation did not create major barriers—in either investment or equipment—for a transition from manual forms of production to machine factories. No sharp increase in the share of accumulation was needed, for the transition was stretched over a number of decades, while the growing volume and productivity of labour engaged in industry met the needs of an accelerating accumulation of capital. Beyond this, for given sizes of enterprises, participation in the sphere of factory production was open not only to owners of large capital funds developed in the course of primitive accumulation or else in international trade, but also to owners of relatively small capital funds that had developed in manual forms of production. For example a substantial part of factory owners in Great Britain's textile industry were originally craftsmen or else owners of small-scale shops engaged in manual production. [17] This contributed to both a deeper transformation of society's socio-economic structure and relatively high rates of industrial development.

The Declining Value of Circulating Capital

The industrial revolution provided an impulse to the development and deepening of the international division of labour and to the growth of world trade. The industrial products of the most developed countries entered into international exchange. Because the industrial revolution initially extended to light and food industries corresponded products of light industry as well as agricultural raw materials played a leading role in international exchange.

This feature of international exchanges exerted an increasing influence on the structure of national economies, on the proportions of macroparameters, and on forms and methods of utilizing the labour force within the industrial countries themselves.

Colonial and dependent countries, as well as countries where European emigrants settled possessed favourable natural conditions, and in many cases vast unutilized land and labour resources as well. Potentially this created possibilities for a substantial expansion in the production of agricultural raw materials. The competitiveness of such raw materials stemmed not only from natural-geographic factors

but also the absence of rents or else low rents, on the one hand, and non-economic forms of compulsion on the other. This resulted in relatively low costs of production by comparison with European countries. The large-scale importation of such products could have produced much damage to European agriculture if it had competed with it directly.

But the agricultural raw materials being imported into Western Europe may be roughly divided into three groups in terms of the level of their competitiveness with local products: a) the products of subtropical and tropical agriculture (rubber, tea, coffee, etc.) that were being introduced into consumption for the first time and that practically did not compete with local ones; b) products that were being introduced into consumption for the first time (jute, sisal, palm oil) but did compete indirectly with European products (flax, hemp, flaxseed, hempseed and olive oil); c) commodities directly competing with European commodities (wheat, sugar beet, wool, fruits). Because the governments in European countries relied on legislative or else fiscal methods to limit the importation of competing commodities, products of the first and second groups tended to prevail. Yet as an age of increasingly free trade developed competition exerted an increasing influence on commodities of the third group as well.

Flax and hemp were first (in the late eighteenth century) to experience the competition of imported raw materials. This led to reductions in both lands under these crops and in their consumption. Their displacement was attributable not only to the relatively low cost of cotton (and later of jute). The loss of land by poor peasants and their migration to cities produced a decline in the domestic processing of these crops into cloth. In addition sailing ships were major consumers of hemp products. But as sails were replaced with steam power demand for that cloth rapidly declined.

But it is since the second half of the nineteenth century that the competitive pressures of imported agricultural raw materials began to be strongly felt. At that time there was a transition on the part of a growing number of governments to free trade policies, and this led to a prolonged agrarian crisis in the major Western European states. Its causes may be briefly described as follows. First, the construction of railroads in North and South America, in Russia, and on the Hindustan peninsula, as well as the development of steam shipping, reduced the cost of transportation

and made it possible for agricultural raw materials from new regions, and especially grain, to enter Western European markets. Second, these products were imported at prices that were much lower than European prices. That was due to both more favourable soil and climatic conditions in most new regions, resulting in a greater productivity of land, and to the presence of non-economic forms of compulsion (rents, taxes, usurious interest) in Russia and India, which forced the peasantry to sell their output at prices that did not take into account production costs. Third, under the existing level of tax and rent exploitation, Western European producers found themselves unable to compete with imported products. The result was a decline of rent payments or else a direct financial ruin of producers.

In spite of the introduction or else substantial increases in import duties on wheat (by 11.7 times in France, 5 times in Germany) the price of wheat declined appreciably. This was particularly true (by 2.5 times) in Great Britain—the country practicing free trade.[18] In the technico-economic aspect the most important consequence of the agrarian crisis were changes in the sectoral structure of economies and their technical reequipment, while in the socio-economic aspect this was the financial ruin of small-scale farmers (peasants or else farmers renting land), and an increase in the size of production units, which made possible a transition to new methods of economic management. Finally, in the economic aspect there was a decline in the costs of all elements of circulating capital.

We can now summarize the changes that took place in the last thirty years of the nineteenth century in the socio-economic structure of agriculture of Western countries. First, there was a sharp increase in the number of very small farms whose area was up to one ha* (except in Great Britain), together with a simultaneous reduction in number and area of the largest farms possessing an area of more than two hundred ha each. Apparently this reflects an increase in the number of agricultural workers possessing land, on the one hand, as well as the liquidation of pre-capitalist estates and of capitalist farms relying on extensive methods. As a result landownership was concentrated among relatively large and medium-sized farm units that were

* 2.47 acres—*Ed.*

able to effect a transition to intensive forms of capitalist production.

Second, there occurred a general increase in the number of rented farms, both at the upper pole and at the lower pole, even in the United States, together with asimultaneous decline in levels of rental payments (except in Germany). [19] That process was highly contradictory: it hid the financial ruin of small-scale peasants and the concentration of land in the upper farm groups. For the former this represented a step towards a final financial ruin and their displacement from agriculture, while for the latter it constituted a path leading to an intensive widening of production. In their turn declines in levels of rent payments prolonged the existence of farms of the first group and stimulated the accumulation of capital in the second. In other words the processes that took place in the agriculture of Western countries led not only to a strengthening of capitalism, but also to its transition from the extensive phase of development to the intensive one.

Competitive pressures from low-cost imported grain produced a restructuring of agriculture's sectoral composition. Indeed, declining market prices for grains led to a decline in the profits (incomes) of producers, forcing them to shift to the cultivation of those crops that had not been affected by competitive pressures or else were affected to a lesser degree. Such a transition was also stimulated by the responses of consumers: reduced expenditures on grains (even at unchanging incomes) allowed them to increase purchases of other types of food products.

This resutled in a relatively rapid restructuring of agriculture and an accelerated development of animal husbandry. In nearly all countries one observes a relative or else absolute decline in the cultivation of wheat and rye and an increase in the cultivation of root plants, seeded grasses, vegetables and fruits. At the same time animal population increased (especially cattle and hogs) as well as of poultry. That of sheep marked an exception: competitive pressures of wool produced in Latin American countries, Australia, and elsewhere resulted in a decline in their numbers, especially in Germany, where their number fell from 25 million in 1873 to 5.8 million in 1912. [20]

The change in agriculture's sectoral structure created a new problem, namely, an increase in seasonal requirements for labour. In particular, in Germany in the 1890s a grain-

producing farm whose land area was one thousand morgens (251 ha) required 48 man-days of season workers during peak times. Following a shift to the cultivation of root plants this increased to 2,569 man-days. Even though farms producing root plants generally began to turn to animal husbandry and hence experienced increases in labour-power expenditures for looking after animals, the ratio of maximal requirements for living labour during the harvest season to the minimal requirements in winter times was 4 : 1, while in the production of grain this was 2 : 1. [21]

The restructuring of agriculture's sectoral composition during the last three decades of the nineteenth century thus increased its demand for living labour. The greater part of that increment concerned seasonal workers, who could be employed productively only during harvests. Yet the agricultural regions of most European countries were no longer able to meet this seasonal need for living labour because needs of industry produced a large-scale emigration from villages to cities.

Thus the internationalization of agricultural production and subsequent changes in its sectoral composition in Western Europe called for a shift from manual labour to machine labour in that sector, while falling grain prices transformed that requirement into an insistent necessity. Indeed, the need to meet sharply increased peak loads in agriculture and also withstand competitive pressures led not only to an increase in the number of machines that were employed, but also to efforts to broaden their use. Unfortunately at the end of the nineteenth century the registration of machinery was mandatory only in Belgium and France. In other countries it was voluntary, and the corresponding records are therefore incomplete. In the United States the value rather than the number of machines was recorded. Nevertheless these data make it possible to reveal a general tendency.

In Belgium between 1880 and 1895 the total number of machines that were employed (both horse-drawn and steam-powered) increased from 11.8 thousand to 20.3 thousand. The increase was especially rapid in the use of sowing machines and threshing machines. In France between 1882 and 1892 the number of horse-drawn and steam-powered machines increased from 507.7 thousand to 664.2 thousand. The use of steam-powered machines, sowing machines and mowers increased at rates that were greater than average. [22]

But it was in the United States that the application of agricultural machines grew especially rapidly. Their value increased from 246 million dollars in 1860 to 484 million dollars in 1890. [23]

Together with an increasingly wide use of mineral fertilizers, of drainage, and of other new agrotechnical methods even the introduction of horse-drawn machines contributed to a perceptible increase in labour productivity and a reduction in production costs. In effect the latter began to draw closer to the prices of imported products produced in more favourable natural-geographic conditions, and in some cases they were even lower. This meant that during the entire industrial transformation in Western countries the importation of agricultural raw materials caused either directly or indirectly a decline in the value of basic elements of circulating capital.

It is widely known that particularly in the early stages of development of the working class basic consumer goods providing for the reproduction of labour power form a major component of labour costs. This is precisely why the importation of low-cost grain and of vegetable fibres and the subsequent decline in prices of agricultural raw materials produced within the industrial countries themselves contributed continually to a relative decline in expenditures for the wages fund. In addition during the period of the industrial revolution, when the factory system extended primarily to light industry and food industry agricultural raw materials constituted the principal object of labour and thus the most important part of circulating capital. Its declining value also made it possible to reduce the magnitude of circulating capital.

Let us consider only some of the most important consequences of that phenomenon for capitalist reproduction. First, declining value of variable capital made it possible to increase the relative exploitation of the working class, and this produced increases in the rate of surplus value and profits. In its turn this widened the basis of capitalist accumulation. Second, the declining values of variable capital and of objects of labour within constant capital made it possible to economize on overall initial capital investments. This appears to have been a major cause that made possible industrial transformations in the presence of a relatively low accumulation rate. Finally, the reduced value of circulating capital as a whole made it possible to channel

capital funds that could not have been as substantial if elements of circulating capital had been more expensive to either increasing the quantity of instruments of labour or else improving their quality. In other words without declining value of circulating capital such a rapid change in the proportions of capitalist reproduction in the nineteenth century would have been impossible.

The Tendency Towards a Universalization of Reproduction in Natural Form

As capitalism developed there emerged an integrated circulation of capital (and an integrated reproduction cycle) in both value and natural forms. But while an integrated circulation of capital in monetary form emerges as soon as capitalism begins to command some sector of the economy or territorial region of the country the situation relating to the circulation of capital in material form is more complex. Its formation is held back by such factors as the coexistence of various types of production (industrial and pre-industrial) and an enormous diversity of natural forms of goods. This is why the development of an integrated circulation of capital in natural form extends beyond the boundaries of an industrial transformation itself and proceeds together with stages in the technical reequipment of the economy that were mentioned earlier. In short the development of an integral circulation of capital in that sense is greatly delayed in time.

Accordingly, the formation of an integrated circulation of capital in natural form falls outside the chronological boundaries of the present study. Yet even a schematic analysis of major tendencies of reproduction in industrial states in natural form makes possible a subsequent identification of factors that either contribute to or else impede industrial revolutions in countries of the former colonial and dependent periphery.

As is well known a society's gross product is divided into three functionally distinct parts. The first serves the replacement of discarded worn out means of production; another serves the reimbursement of workers' means of existence and of the personal consumption of capitalists; while a third serves a widening of production assets and of means of the existence of workers assigned to service them.

Since in terms of their material form these three funds consist of means of production and objects of consumption, it appears appropriate to consider changes in the reproduction of these.

Even in the last quarter of the nineteenth century, when the industrial transformation proper was already completed in major capitalist countries, machine production extended only to industry, transportation and communications. The reproduction was based on a system of machines and on the consumption of industrial types of energy (initially of steam, then electrical power, and then petroleum products). The elements of fixed capital (machinery and other production facilities) were being reproduced on an internal industrial basis while the elements of circulating capital originated partly in industry and partly in agriculture. As the development of science and technology proceeded, the share of industrial output in circulating capital increased continuously, largely through an increase in the share of branches of heavy industry utilizing only industrially processed raw materials, and also through a relative displacement of agricultural and natural raw materials by artificial raw materials and synthetic ones.

In the nineteenth century, however, factory goods played a substantial role only in the reproduction of industry itself and of transportation. In agriculture, on the other hand, manual forms of production continued to prevail even in the initial decades of the twentieth century. They were based on the use of horse-drawn equipment and of the muscular energy of the producers themselves. In short a decisive role in reproduction continued to be played by such agricultural inputs as animals, seeds, and organic fertilizers. Because of their relative simplicity, low cost and relatively small numbers instruments of labour played a modest role in the productive consumption fund. While the appearance of horse-drawn and later of steam-powered machines and of mineral fertilizers point to the first stages of agriculture's engagements into an integrated circulation of capital in natural form, the share of industrial output in that branch's reproduction expenditures was low.

The personal consumption fund was marked by a similar heterogeneity. First, part of it was reproduced on a natural basis (a worker with a plot of land). Second, its composition included both industrially processed goods and also raw products originating directly in agriculture that were

not always produced through capitalist methods. Third, one could observe enormous social differences within the personal consumption fund: in terms of its material composition the consumption of exploiting classes and of workers differed sharply.

Thus even in the initial phase of the monopoly stage of capitalism there were two incompletely related cycles of reproduction in material and physical form within the economy as a whole. Above all distinct cycles of reproduction of fixed capital were largely preserved in branches that had shifted to the machine stage of production and in branches that were still pre-industrial. These differences were also reflected in the reproduction of the personal consumption fund, where there also existed commodities and services reproduced on both an industrial and a pre-industrial basis.

Beginning in the 1920s there were rapid changes in agriculture. The power of animal-drawn equipment and of human energy began to be replaced by systems of machines that gradually extended to an increasing number of stages of production. At the same time organic fertilizers were replaced by mineral fertilizers, and wide use was made of chemical insecticides as well as of industrially prepared seeds. Finally, a general expansion and concentration of agricultural production required a major increase in capital construction activities. Primitive sheds and cellars were replaced by modern warehouses, garages and cold stores also constructed from prefabricated materials (bricks, cement, metal mountings, reinforced concrete) and containing standard industrial equipment. Horse-drawn vehicles in agricultural regions were replaced by power-driven transportation and this led to an increase in the consumption of industrial types of energy. This caused a continual growth in the share in both the basic and circulating capital in agriculture of means of production originating in industry.

Agriculture's involvement into an integrated reproduction cycle was not one-sided. For one could also observe a gradual increase in the share of agricultural products in industrial processing as well as an increase in the purchasing of industrial means of production by agriculture. This was explained by both a growing division of labour within national economies and a wider complex of socio-cultural factors (ways of life, habits, culture). This provided a two-

sided involvement of agriculture into the general circulation of capital.

In this way with a transition from manual forms of production in agriculture to the factory stage there developed an integrated reproduction cycle in natural form within the economy as a whole. This reflected a certain universalization in the natural form of productive consumption within the entire economy. Of course that universalization can never become complete because of differences between individual sectors of social production. Nevertheless, that process constituted a leading tendency during the last several decades.

Equally important changes took place in the reproduction of the personal consumption fund. First, there occurred a continual increase in the share of products entering the personal consumption fund in the form of industrially processed goods. Instead of a consumption of raw agricultural produce (grain, wool) and of industrially semi-processed goods (flour, cloth) that were then processed into final products within the households themselves one observes a consumption of fully prepared products (bread, clothing). At the same time there is a gradual widening of the mix of products involved in industrial processing, as well as an increase in their degree of processing. This produced a number of consequences. On the one hand an extension of the sectors of light industry through a displacement of domestic processing increased more rapidly than did net social product. This brought about a growth in demand for products of heavy industry entering into light industry in the form of fixed capital. This served as an additional factor in increasing the share of heavy industry in the reproduction of the social product. On the other hand the concentration of raw materials processing in factory industries with their mass production methods brought about a greater standardization of production. This resulted in a greater homogeneity of the personal consumption fund.

Second, the displacement of natural economy relations, the "demonstration effect", and the power of fashions have increasingly undermined national, religious, local and other specific features in demand for personal consumer goods. This has served to increase even more the homogeneity and standardization of the personal consumption fund.

Third, there were changes in the type of differences in consumption that were associated with social structure of society. It is well known that during the period of feudalism

and at the pre-monopoly stage of capitalism a society's lower and higher income strata differed not only in the quantity and quality of the commodities they consumed but especially in their types of consumption. For example, over a prolonged period of time the consumption of paper, glass, ceramics and silk was essentially a monopoly of the ruling classes. It would appear that such factors as the migrations to cities, the growing value of labour power (because of increasing skills), changes in the working class's habits and aspirations, a stronger organization of the labour movement, and an increase in the share of workers in services resulting from the state's increasing role in the age of state-monopoly capitalism have produced substantial changes: there emerged a tendency towards a homogeneity in consumption by both lower and higher social strata. Both consume the same type of commodities today and differences relate to the quantity and quality of products being acquired. Of course, under capitalism differences in types of consumption attributable to socio-economic factors cannot be completely overcome. At each stage some new types of commodities are produced that are in effect luxury products. Nevertheless, major differences in types of consumption have now been overcome for a major part of the personal consumption fund, and this has resulted in its partial standardization.

Fourth, there have been substantial changes in the composition of the personal consumption fund. The following governing principle has long been noted in economic science: the lower is labour productivity in a given society, and the lower the level per capita income, the higher (for other conditions being equal) will be the share of basic necessities in the personal consumption fund (food, clothing and fuel). Conversely, as labour productivity increases, the share of vital items declines in consumption while that of durable consumer goods increases, as do expenditures on education (and hence on paper and on printed matter), and on medicine (including products of the pharmaceutical and chemical industries). Beyond this products of heavy industry are employed increasingly in the production of vital consumer goods as well: together with natural fibres manmade fibres in clothing industry are used increasingly, while leather is replaced by plastic products and rubber in the production of shoes. Non-industrial types of fuel are increasingly replaced by natural gas and electricity. In short, there is a continual increase within the personal consump-

tion fund in the share of sectors producing intermediate demand commodities.

Thus one of the characteristics of personal consumption funds is a certain levelling and increase in homogeneity, as well as an increase in the share of non-agricultural products, especially from heavy industry. These shifts bring close together the range of productive consumption funds and personal consumption funds. An increase takes place in the share of primary raw materials and semi-processed goods that may be employed in producing both personal consumption goods and producers goods. This in turn makes it possible to employ similar technology in producing final products.

In summarizing these observations one may identify three basic tendencies relating to changes in the natural form of product reproduction: a universalization of productive consumption funds, a unification and universalization of personal consumption funds; and as a result a certain mutual interpenetration, universalization and greater closeness of natural forms of consumption generally.

These processes have contributed to a widening of the market and a reduction in the demand for small lots of goods that has served as one of the factors leading to an increase in the size of production enterprises. Larger production units, in turn, have made it possible to engage in types of output that are possible only in large-scale production. This as well as new products have called for the introduction of new technology. In this way there emerged a complex casual linkage between production and markets that resulted in an increased effectiveness of social production and rapid scientific and technical progress.

Employment and Unemployment

In a political-economic analysis of the causes for the emergence of unemployment under the capitalist mode of production major emphasis is usually placed on the increasing technological intensity of production activities which tends to reduce the need for living labour. While changes in equipment and in the technical intensity of production activities are indeed a frequent primary cause for the emergence of a chronic unemployment, in practice other factors also influence the scale of unemployment and the proportion of the reserve army of labour to the active army of

labour. Aside from increases in the technical equipping of production activities they include the economy's rate of growth, the scale and rate of destruction of precapitalist and early capitalist forms of production, changes in natural population growth and shifts in its age structure as well as the international migration of the labour force.

The intensity of these factors and the direction in which they operate can either coincide or not. This will also be reflected in changes in the proportion between the active and reserve labour. Since the industrial revolutions in Western European countries and in North America extended over nearly 40-50 years, one may clearly follow differences in the role played by these factors and in the directions in which they operated.

The rates of industrial development during corresponding industrial transformations varied greatly: in Great Britain (1780-1881) the average yearly growth in industrial output was 2.5 per cent, in France (1825-1885) it was 2.8 per cent; in Germany (1851-1875) it was 3.7 per cent; and in the United States (1839-1860) it was 6.5 per cent. In short rates of development appear to have been higher in countries entering into industrial transformation at a later time. Such rates of development made possible an absolute and relative increase in labour power in industry itself. That tendency was also enhanced by the greater duration of industrial transformations. Together with sectors experiencing a process of very rapid technological reequipment sectors continued to exist that developed through extensive methods. This is why employment continued to grow especially in industry.

Nevertheless industrial transformations were accompanied by the emergence of chronic unemployment in Western countries. In order to understand its sources and consequences it is appropriate to distinguish between two stages: a) unemployment emerging in the course of the initial introduction of machines; b) unemployment associated with an increasing organic composition of capital within the factory system itself. That distinction is made especially important by the fact that qualitative characteristics of the reserve armies of labour emerging in each case are by no means similar.

It has already been noted that the initial introduction of machines produced significant increases in labour productivity. Their magnitude may be seen in examples cited in

studies of economic history. "By means of these improved agricultural machines [this refers to machines driven by animal power] the average amount of grain that could be harvested, threshed and prepared for the market, from the standing grain to the marketable product, by a single man per day, was increased from about 4 bushels in 1830 to about 50 bushels in 1880." [24] There was a similar increase in industrial productivity: "...since the introduction of machinery, which lately took place, hand-spinning has fallen into disuse ... 50 persons ... with the help of machines, will do as much work as 500 without them." [25]

As a result there occurred an incessant financial ruin of crafts and manual forms of production. But the scale of the resulting unemployment depends on such factors as the social organization of production, the economy's sectoral structure and the country's demographic situation. Since countries of Western Europe and North America differed rather substantially in these aspects, the initial introduction of machine systems produced different effects in each case.

It would appear that the greatest (absolute and relative) visible unemployment resulted from the initial introduction of machine systems took place in Great Britain. This may be explained by the following factors.

An enormous concentration of landownership as well as an early development of capitalism in agriculture were a major characteristic of Great Britain. At the same time the introduction of capitalist relations in agriculture also brings a new labour discipline and a more rational organization of production as the first machines begin to be used. This reduces the need for labour power. Unless there is a substantial increase in the area of land under cultivation the demand for labour power in that sector will also decline in absolute terms. This situation was made even worse by the fact that the cultivation of land was replaced by sheep farming, which required lower inputs of living labour. As a result of both these processes unemployment appeared already before the industrial transformation itself.

Beyond this the range of pre-factory industrial products in Great Britain was relatively limited. F. Ya. Polyanski, a Soviet historian, notes that during the second half of the eighteenth century approximately one-fifth of Great Britain's entire population was associated with the cloth industry. [26] Since the industrial revolution initially extended to textile industry the introduction of machines affected the great

number of people. At the same time a slow transition to the development of other manufacturing industries held back what could have been at least a partial absorption of the resulting unemployment.

Finally, in Great Britain the industrial revolution occurred against the background of a sharp acceleration in population growth. Its yearly average rate of growth was 0.3 per cent before 1751, 0.6 per cent in 1752-1781, 0.9 per cent in 1782-1791, 1.1 per cent in 1792-1801, and 1.4 per cent in 1802-1811.[27] This resulted in a continuing absolute and relative growth in the number of workers entering the labour market each year. That increased even further the level of visible unemployment during the industrial revolution.

In countries whose industrial transformations came later the regularities governing the way in which the introduction of the system of machines influenced the development of reserve armies of labour were somewhat different.

Above all capitalist relations had not yet become dominant in agriculture in those countries at the beginning of their industrial transformation. For a very long time small-scale farming continued to prevail (in France, the western parts of Germany, the mountainous parts of Italy, Belgium) together with large-scale land holdings (Eastern Prussia, Hungary, Southern Italy) that shifted to capitalist methods of operation very slowly. Beyond this the sectoral structure of agriculture itself in that group of countries experienced substantial changes in the course of industrial transformations and produced a growing demand for living labour (these problems will be considered below). As a result there occurred a gradual pauperization and financial ruin of peasant farms together with a relatively slow displacement of landless workers from villages. The typical figure, in these cases, was the small-scale producer who was forced to sell his labour power on a seasonal basis. There were mass additions to the urban proletariat in these countries at the final stage of their industrial transformations.

None of the countries experiencing an industrial revolution in the mid-nineteenth century had known the type of pronounced and one-sided specialization in pre-factory industrial production in the preceding period that had occurred in Great Britain. This is why even though their industrial revolutions also began in light industry branches, the emergence of the factory system did not cause such an ex-

tensive destruction of crafts and other manual forms of production. Moreover, there did not occur a prolonged delay in that group of countries between the development of light industry and heavy industry. By the middle of the century wide-ranging construction activities of railroads and telegraph lines also began in Western Europe that then required substantial expenditures of living labour. Finally, the industrial revolution in the mid-nineteenth century took place in the context of a different demographic situation and advances in means of transportation greatly simplified and facilitated emigration.

As for the countries of North America the initial introduction of machines did not result in any substantial influence on employment. Manual forms of manufacturing did not have time to strike deep roots, and the presence of unsettled lands created possibilities for absorbing into agriculture persons who were displaced from their craft or else manufacturing activities.

It should also be noted that in countries entering the industrial revolution in the nineteenth century rates of economic growth were substantially higher than in Great Britain. Retrospective estimates of modern Western economists indicate that they were 2-2.5 times higher than in Great Britain. Other conditions being equal higher rates of growth led to a greater demand for labour power.

The initial introduction of machines was thus accompanied by the appearance of reserve armies of labour consisting of persons displaced primarily from pre-machine forms of production and often from precapitalist forms of production. Obstacles to overcoming this included not only the relatively capital intensive character of factory systems but also a lack of qualitative correspondence of that labour force with the factory systems' needs.

The development of the factory system itself also produces so-called technological unemployment, which is superimposed on the declining employment resulting from the initial introduction of machines. In their pursuit of profits capitalist enterprises continually expanded production activities and produced increasing volume of commodities. The expanding of production was accompanied by an involvement of additional labour power. At particular times the volume of production began to exceed effective demand and overproduction crises would develop. During such crises production declined and a part of the labour force was dis-

charged from employment. A reserve army of labour thus appeared.

A way out of such crises was provided by forms of renewal of fixed capital that made reduced production costs possible. Such a renewal of fixed capital was accompanied by an increase in its organic composition. In the United States, for example, where the shortage of labour and relatively high levels of wages stimulated a growth in the organic composition of capital, its average rates of growth in 1850-1880 was 0.6 per cent. [28]

Since a declining volume of living labour was needed per unit of output at each stage, unemployment became chronic. In the economic literature this type of unemployment has come to be called technological, for its emergence is directly linked to changes in technology. In terms of such qualitative characteristics as level of skills and degree of adaptation to capitalist labour discipline these unemployed persons fully met the requirements of the factory system, but their actual utilization was impeded by technological progress under capitalism.

If one considers the growth of reserve armies of labour only from the point of view of the objective governing principles bearing on increases in the organic composition of capital this should eventually produce three major consequences. Above all a relative and absolute increase in technological unemployment should exert an increasing influence on the active part of the army of labour causing a downward trend of the price of labour and its value. At the same time under pre-monopoly capitalism the use of machines was advantageous only in two cases: when their price was less than the wage level of the workers that they displace, or else when a given technological operation could not be carried out by living labour. Since under pre-monopoly capitalism a leading role in development was played by branches of light industry, in which living and embodied labour are relatively mutually substitutable, it was the first of these factors that played a dominant role in decisions to turn to machines. This is why in the presence of relatively substantial chronic unemployment there could be situations in which the use of new equipment would be disadvantageous. In other words, technological progress had to either pause or sharply reduce its rate. In the presence of constant technology increases in production should then lead to an absorption of unemployment.

Beyond this chronic unemployment and a sharp decline in the price and value of labour should cause a reduction and then a full cessation of the inflow of labour power from villages into cities. Accordingly, the population that appeared as a result of natural demographic growth should in principle remain in villages, causing an agrarian overpopulation and unemployment. Their pressure should produce a decline in incomes of direct producers and in the wage rates of agricultural workers. This would bring about a cessation of technological progress in that branch as well. Indeed, for large landowners the use of machines would become undesirable, for their value would exceed the wage rates of the workers that they would displace.[29] This is why an increasing role would be played by renting land, sharecropping, or payment through labour service.

In peasant economies possessing limited land resources, an absolute and relative increase in rural population should result in a further partitioning of land holdings. Since under constant technologies this would result in a parcelization of holdings and a decline in incomes of direct producers, while a growing overpopulation would encourage a search for auxiliary forms of income the outcome would be a reduction in the market surplus, on the one hand, and a preservation of semi-natural or else natural reproduction in peasant farms. This would make it impossible to provide for the reproduction of variable capital in industry on a national basis and would gradually reduce the size of industrial markets.

Finally, growing unemployment, declining marketability and an increase in agrarian overpopulation should be reflected in the levels and rates of development of industry itself. It is evident that an increase in unemployment and a decline in the price and value of labour power in the economy as a whole would reduce the relative rate of growth in demand for consumers' goods: the rate should correspond more or less to the natural increment in population. In turn a slower development of branches of light industry and a corresponding reduction in needs for fixed capital would also limit the development of heavy industry.

Because of increases in the rate of surplus value the profits of exploiting classes could increase. While the corresponding growth of branches producing high quality products and luxury goods could continue this would not exert a substantial influence on overall rates of industrial develop-

ment since these classes are not very numerous. Rates of industrial development would gradually decline. But since the development of industries served as a basis for a capitalist transformation of European countries this would also reduce the pace of that transformation itself.

But historical experience shows that none of these consequences expressed themselves fully; in any event they did not produce a cessation of the industrialization and capitalist development of Western countries. This meant that other factors also operated in the economic and social activities of these countries that impeded or else attenuated the operation of objective principles associated with the increased organic composition of capital.

Above all demographic tendencies should be considered. In the nineteenth century as a result of economic, social and cultural shifts both birth rates and death rates declined in Western countries and the latter, moreover, proceeded more rapidly. As a result natural rates of population growth increased. While in the nineteenth century they were one and a half times higher than in the eighteenth century, as a whole they were relatively modest, namely, 0.71 per cent per year over a century. At the same time they differed substantially from region to region as well as chronologically. In particular, average yearly rates of population growth were 1.05 per cent in Great Britain and only 0.35 per cent in France.

Chronologically one may distinguish between four stages in population growth in Western Europe in the nineteenth century: low rates of growth in 1801-1820; a rapid increase in net additions to population after the end of the Napoleonic Wars; a decline below the level of the turn of the century in 1830-1860; and finally an increase in the 1860s. Indeed the average yearly increment in population was 1.27 million in 1801-1820; 2.14 million in 1821-1830; 1.78 million in 1831-1840; 1.78 million in 1841-1850; and 1.89 million persons in 1851-1860. [30]

This meant that at the height of the industrial revolution in Western European countries (in Great Britain, in its concluding stage) the absolute volume of labour power that entered the labour market each year was stable, and its rate of increase declined. Declining rates of natural growth in labour power operated as a spontaneous regulator of the size of the reserve army of labour. As a result the limitations imposed on technical progress became less rigid.

But an analysis of changes in natural population growth does not fully explain the actual situation on the labour market, for the class-forming processes of bourgeois society as well as improvements in means of transportation generally increased European emigration to the United States, Canada, Australia, New Zealand, South Africa and Latin American countries. The share of persons emigrating within the natural population increment rose from 1.18 per cent in 1811-1820 to 21.03 per cent in 1851-1860. This produced an absolute decline in the growth of the population that remained in Western Europe: 13.1 million persons in 1811-1820, and 13 million persons in 1851-1860.[31] One may assume that the decline in additions to the labour force was even greater, for generally it was a part of the able-bodied population that emigrated.

The influence of emigration naturally varied from country to country. In the nineteenth century Great Britain (including Ireland) lost 34.4 per cent of its natural population growth through emigration. During the same period Norway lost 30.8 per cent, Sweden 29.8 per cent, Portugal 27.6 per cent, Italy 22.3 per cent, and Spain 18.5 per cent. In the case of France immigration from other countries exceeded emigration by 900,000 persons.[32] Naturally as emigration from a particular country increased, other conditions being equal, its reserve labour army declined.

The demographic statistics of Western European countries show that during cyclical overproduction crises and depressions emigration grew perceptibly. This was repeatedly noted by contemporaries. Accordingly, it is possible to conceive schematically the combined influence on industrial transformation of the mechanism of increasing the organic composition of capital, of declining rates of natural population growth and of emigration.

A sharp increase in the reserve army of labour occurs during periods of crisis and depression, but emigration also increases and this reduces the number of unemployed in the given country.[33] But the joining of former emigrants with means of production at new locations generated additional demand for the output of Western European industries and this operated as a factor helping overcome the crisis. In the phase of revival, on the other hand, unemployment begins to decrease, while in the phase of upswing, when production reaches its highest point, there develops a relative shortage of labour power.[34] This can only be

overcome by attracting labour power into industry from other sectors of the economy, especially from agriculture. In its turn the migration of population from villages into cities forces entrepreneurs in agriculture, too, to rely on the use of labour-saving means of production. This further increases the displacement of labour power from that sector. Similarly, relative shortages of labour power during the upswing phase operated as an additional stimulus for technological progress and encouraged the use and development of new types of equipment that were more advanced and more productive than would otherwise have been the case. As a result of the operation of that mechanism "in England in the middle of the nineteenth century ... during several decades the percentage of unemployed remained nearly constant in corresponding cyclical phases, that is, the relative growth in the industrial reserve army temporarily ceased." [35]

Industrial Transformations: Metropolises and Colonies

An inherent feature of capitalism is a contradiction between the social character of production and the private character of appropriation. This results in cyclical crises of overproduction. It would appear that in the course of industrial transformations the depth of that contradiction was further increased by two additional circumstances. 1) A decline in rates of natural population growth and emigration: this created possibilities for increasing the rate of technical reequipment of the economy as a whole, and hence for a potential widening of the volume of production, while simultaneously limiting the scale of demand on the domestic market, since both these processes implied a relative and in some cases even an absolute decline in the number of purchasers. 2) Throughout the entire pre-monopoly stage of capitalism the real wage rate in Western countries practically did not increase. But since there also occurred an increase in the share of the working class within their populations this produced additional impediments to an adjustment of supply to effective demand on domestic markets. It would appear that a temporary blunting of that contradiction was achieved through a specific international division of labour that produced changes in the objective principles governing reproduction within countries experiencing industrial transformations.

The industrial revolution sharply accelerated the development of productive forces in Western European countries and in North America. Between 1820 and 1860 their volume of industrial production increased by 6.5 times. Moreover, four countries, namely, Great Britain, France, the United States, and Germany, accounted for nearly 4/5 of the entire industrial output. Such a concentration of industrial production alone stimulated the development of international trade (not to mention other causes). Indeed between 1820 and 1860 international trade increased by 7.5 times, i.e. its rate of growth was greater by approximately one-seventh than that of industry itself. [36] But this widening international division of labour possessed a specific character that exerted a direct influence on the economic structure and socio-economic relations of both industrially developing and agrarian countries.

The low cost of industrial goods being produced in factories opened the way for them to national markets of countries that did not possess their own machine industries. [37] Their competition destroyed traditional lower forms of industrial production in colonial and dependent countries, thus further enhancing their agrarian character. Because more favourable natural conditions existed in Eastern countries their advantages in agricultural production as opposed to industry (in terms of labour productivity) were even greater than in Western Europe, and the initial agrarian emphasis of their economies increased their net social product. This in turn created conditions for intensifying the exploitation of colonies by metropolises.

In exchange for industrial goods the large precapitalist periphery supplied plant and mineral raw materials that were produced in favourable natural-climatic conditions. The use of both capitalist and precapitalist methods of exploitation and often of direct non-economic forms of compulsion as well made it possible for the bourgeoisie of industrial countries to appropriate a substantial part of the precapitalist periphery's net product. This served to retard that group of countries' socio-economic as well as technical transformation.

At the same time the importation of cheap mineral and vegetable raw materials into industrial countries held back the development of extractive industries and of agriculture in those countries, thus altering the specialization of their economies. The industrial character of their economies was

further enhanced. It was made even stronger by two additional circumstances. First, as industrial commodities penetrated an increasing number of new markets and as lower forms of production were destroyed in colonial and dependent countries the share of products of light factory industries exported by industrial countries increased. Secondly, the development of capitalism in lagging European countries and the need for "normal" conditions of exploitation of colonial and dependent countries required the creation of industrial infrastructures and the construction of enterprises concerned with primary processing of agricultural and mineral resources. Under the existing economic and political system only industrial countries could supply the required equipment.

All these factors produced an excessive further development of the manufacturing industry in a small number of Western European countries and the United States that did not correspond to the requirements of domestic markets.

Thus, in the course of industrial transformations the production of industrial goods was increasingly concentrated in industrial countries while the production of raw materials was concentrated in colonial and dependent countries. This was subsequently reflected already towards the end of the nineteenth century in an identification of the Western capitalist countries with a world city and the entire precapitalist periphery with a world village.

Together with the growing share of industry in the gross domestic product of capitalist countries there were substantial changes in the sectoral composition of industry itself. Above all the share of the extractive industry within the gross industrial product declined, for, as was already noted, mineral raw materials were increasingly being imported. The reduced costs of mineral raw materials then provided an additional stimulus to the development of manufacturing industries.

The precapitalist periphery's market structure explained the priority demand for vital consumer goods. This again contributed to a further development of branches of light and food industries in industrial countries. But as colonial empires were extended and the positions of Western countries in dependent countries were strengthened enterprises were established that were engaged in processing raw materials that were either difficult to transport or that easily spoiled. This was true of the numerous enterprises engaged

in the cleansing and pressing of cotton and jute, and washing and pressing of wool, the tanning of animal skins, the drying of tobacco and fruits, milling, rice processing, and enterprises engaged in the production of sugar, rum, and palm oil that developed in various Eastern countries. The transfer of these branches to Eastern countries since the 1860s and 1870s began to reduce the rate of development of light and food industries in capitalist countries. This resulted in a decline in their share in the gross output of processing industries.

At the same time a number of factors contributed to the further development of heavy industry. The creation of light and food industries both in lagging European countries and in the colonial and dependent periphery required the importation of equipment from industrial countries for the enterprises being constructed as well as regular deliveries of spare parts and auxiliary materials. A further demand for products of heavy industry derived from the construction of railroads, port facilities, and telegraphs in the most varied parts of the world as well as the reequipment of armies in dependent countries. That demand, too, was met by the industries of capitalist countries.

Yet heavy industry is marked by a much greater division of social labour than light industry. Its own development produces a demand for ever new types of primary raw materials, auxiliary materials, and semi-processed goods. [38] This further extends the complex of branches within heavy industry. While at the time of the completion of industrial transformations heavy industry had not become dominant in any of the large capitalist countries, its rapid development and growing importance was increasingly reflected in their economic structure.

The completion of the industrial revolution resulted in a division of the world into two parts that were unequal in terms of their socio-economic and technical characteristics, namely, capitalist countries and precapitalist countries, industrial and agrarian countries inhabited primarily by workers and peasants. At the same time the rapid development and growing relative weight of branches of heavy industry brought about still another division, this time relating to skills.

When manual forms of factory production developed skilled craftsmen were displaced by "specialized" workers, who had been taught to carry out a single operation (or else

several); there also appeared auxiliary workers who did not possess any skills. The replacement of manual forms of production by machine production displaced the technical basis underlying a division of labour in manual production. This resulted in a leveling of the functions performed by workers in factories. There followed a rapid decline in the number and relative share of skilled workers in industry in the initial stage of industrial revolutions.

But the rapid extension of heavy industry that was accompanied by the use of increasingly complex production processes and machinery produces the opposite tendency, namely, a new absolute and relative increase in the number of skilled workers. Their share depended on such factors as the sectoral structure of industry and rates of technological progress and therefore differed in various countries. Apparently its highest figure was found in France where "before the First World War the ratio of skilled craftsmen and specialized workers ... was 7 to 1." [39] At the same time in colonial and dependent countries the ruin of lower forms of industrial activities through the competition of factories and the growing share of traditional agriculture was accompanied by a decline in labour skills. In short, industrial countries were also juxtaposed to agrarian countries as countries possessing a largely skilled labour force while the latter possessed an unskilled or low-skilled labour force.

This produced still another consequence. The value of skilled labour power is equal to *n* units of unskilled labour power, since it includes expenditures on its training. Under conditions in which a substantial part of the population was illiterate and in which a system of professional training did not exist these expenditures proved to be very large. This is why as the share of heavy industry increased so did differences in the value of labour power in the metropolises and colonies: the former were increasingly transformed into countries possessing a high-value labour power, and the latter into countries with a cheap labour power.

In a later period—in the age of imperialism—differences in the value of labour power became one of the causes impeding the development of heavy industry in the colonial and dependent periphery. Indeed, foreign capital could be directed into light industry, where a relatively low need for skilled labour power and its low cost made it possible to obtain easy profits. Conversely the creation of enterprises in heavy industry which required large numbers of skilled workers

and large preliminary inputs for training them, proved to be less advantageous than in the industrial countries themselves.

The industrial revolution was an extremely contradictory affair. It created new productive forces that sharply increased the scale of social production and greatly reduced its costs. In its turn, the establishment of industrial productive forces contributed to an acceleration in the development of international division of labour that gradually formed a world economy and an international market. Finally, industrial productive forces destroyed the closed medieval relations and traditional structures based on personal dependence thus contributing to the development of the new classes of bourgeois society. That is why the industrial revolution became a watershed in the history of the human race.

At the same time the capitalist character of the industrial revolution consolidated the division of the world into colonies and metropolises. While colonial conquests began long before the industrial revolution they were originally based on the European powers' advantages in military organization and later (in the eighteenth century) on a more developed socio-economic structure as well. It is this that explained the colonial countries' political dependence. The industrial revolution, in its turn, backed colonial conquests economically. Following its completion there emerged an economic and social dependence of the periphery's colonial and dependent countries. On the one hand, disparities in levels of productive forces and in production relations created a basis for a regular exploitation of colonies. On the other hand, the very development of new productive forces under conditions of capitalism required the conquest of external markets. Thus following the completion of the industrial revolution the division of the world into metropolises and colonies also began to reproduce itself, for that emerging duality reflected objective principles governing the accumulation of capital. It could only be overcome through political methods.

CHAPTER II

The Pre-History of Industrial Transformations in Eastern Countries

During a fairly prolonged period of time the industrial backwardness of Eastern countries was attributed in Soviet economic literature to discriminatory policies of colonial authorities and to an unrestrained competition of foreign commodities on colonies' and dependent countries' domestic markets. Indeed, the competition of imported commodities destroyed local precapitalist forms of production in these countries, while actions of colonial authorities often impeded the establishment of new industries. Nevertheless, numerous area studies show that the industrial backwardness of Eastern countries cannot be explained exclusively in terms of external factors. That backwardness was attributable to the dominance of feudal production relations, the prevailing economic structure, and other elements. In short, the industrial backwardness of Eastern countries resulted from an intertwining and interaction of both domestic and external factors. The present chapter will consider the causes for the slowness of corresponding industrial transformations.

The Initial Introduction of Machines

The introduction of machinery in the economies of Eastern countries began in the middle of the nineteenth century, when a rapid extension of Western powers' colonial rule was taking place and when unequal relations developed with Eastern states that formally retained their independence. By that time the colonial and dependent Eastern periphery was at a precapitalist stage of development, and the emergence of capitalism as a new social structure had not yet begun in the overwhelming majority of such countries. While in Western Europe and North America a transition to factories was preceded by a prolonged period of capitalism based on manual factory production methods, which is often

described as manufactory capitalism, in Eastern countries machine methods of production came to be used before local capitalist relations and manual forms of factory labour developed.

In short there existed neither a relatively numerous layer of small-scale owners possessing a certain initial capital and able to effect a transition to capitalist forms of factory production, nor labour force trained by manual factory production methods in carrying out factory operations, nor, for that matter, a relatively large and standardized market resulting from pre-machine forms of manufacturing. In such conditions the very possibility of applying machinery derived from the development of capitalism in Western countries and its extensive form of dissemination to new territories. It is this that made it possible to transfer to Eastern countries production relations and means of production that were new for them.

Also while in Western European countries and North America machinery was initially applied in industry in Eastern countries it was applied in transportation. Steamships, railways and telegraph lines were the first systems of machines developed in colonial and dependent countries.[1] That sequence derived from both specific features in the economic development of the colonial and dependent periphery and from economic and military-political requirements of Western powers.

Since at that time Eastern countries were unable to initiate machine production activities independently the establishment of factory industries and the marketing of their products were largely performed by foreign capital. In the middle of the nineteenth century, however, when industrial transformations had been completed only in Great Britain and in France, the construction of industrial factories in Eastern countries by foreign capital was the exception rather than the rule.

Transportation, on the other hand, was in a certain sense "indifferent" in relation to socio-economic structures and to conditions of production: railroads and steamships could carry both the products of capitalist enterprises and the necessary product of immediate producers appropriated through non-economic methods. As a result in the period of pre-monopoly capitalism investments in transportation in the colonial and dependent periphery proved to be more advantageous than in the sphere of material production. At the

same time the development of transportation increased possibilities for both exploiting Eastern countries and maintaining order, for the resulting increased mobility of military troops made it possible to suppress anti-colonial manifestations more quickly and to carry out trade wars more effectively while also reducing the costs of exporting raw materials and of importing finished goods.

The introduction of machines on a capitalist basis into precapitalist environments in a colonial context was a highly contradictory process. On the one hand, the development of modern transportation and communications networks resulted in the development of an entire range of factory industries that at first were largely engaged in serving transportation construction activities and of transportation itself, and subsequently during the second half of the nineteenth century in processing of agricultural raw materials and extracting and enriching mineral raw materials for export. At the same time, by sharply accelerating and reducing the costs of deliveries of finished industrial commodities from metropolises to colonial and dependent countries, mechanized forms of transportation also increased the pressures of foreign competition on domestic markets. By destroying local precapitalist forms of production this held back the development of factory industries oriented on domestic markets.

At the same time this reversal of the sequence in which machinery were introduced (in Western Europe and North America their introduction in industry preceded their introduction in transportation and communications) produced a complete dependence of simple as well as expanded reproduction in Eastern countries on the world market. Indeed, in Western countries the emergence of factory systems in industry and a transition to the construction of machines with the help of machines made possible a subsequent technical reequipment of the entire economy. In Eastern countries, on the other hand, the system of machines that were initially introduced could not possibly lead to mastering their production in future.

The specific system of machines that was initially introduced in Eastern countries also exerted a different influence on markets for labour power. Given a relatively modest development of money-commodity relations in most Eastern countries goods were traditionally transported by peasants (as an auxiliary activity, or else in performing compulsory services to landowners and to the government). In some

countries this was done by nomadic tribes. Accordingly, far from leading to unemployment the construction and operation of railroads and port facilities actually increased employment. In fact, since there was still an insufficient volume of free labour power at that time in many Eastern countries the construction of transportation networks required imports of labour from other countries (primarily from India, China and Egypt).

A similar role was played by export branches of extractive and processing industries. In spite of the use of machinery and of the resulting higher labour productivity the export oriented character of these activities did not destroy local precapitalist forms of production. Moreover, export-oriented enterprises frequently produced goods that had been unfamiliar in Eastern countries. [2] This is why their development resulted in an expansion of employment.

Still another circumstance should be noted. In Western countries the decline in commodity prices made possible by a broad use of machinery was a major factor in reducing the value of a worker's means of existence and hence in causing a relative decline in the value and price of labour power. It is fully clear, however, that the export-oriented industries of Eastern countries could not play such a role. In fact by stimulating the production of export crops (through both economic or non-economic methods) they produced a decline in the cultivation of food crops (in a number of countries) and thus contributed to increases in the price of food. As for transportation it encourages by its very nature not so much lower prices for commodities as a leveling of their prices closer to some average level. In other words while the introduction of machinery in Eastern countries reduced the relative value of consumer goods in Western countries it proved in effect to be "neutral" in this respect in the Eastern countries themselves.

As was shown in the first chapter the industrial revolution constitutes a result and a product of the preceding development of productive forces. Accordingly, by analogy with Western countries the introduction of systems of machines into the economies of Eastern countries should have resulted in both a transformation of precapitalist socio-economic structures into capitalist ones and a technical reequipment of entire economies and a universal utilization of machinery.

While a development of capitalist relations and of a capitalist economic sector did begin in Eastern countries during

the century that separated the demise of the colonial system in Asia and North Africa from the initial introduction of machines and while the use of machines did continually increase a completion of an industrial transformation did not occur either in its socio-economic or its technical sense. It would appear that the unusually slow rate of socio-economic and technical progress in Eastern countries (in Western countries the industrial transformation required 40-50 years) was attributable to specific structural characteristics of agrarian economies and also to the character of their exploitation.

Imported Commodities and Local Pre-Factory Production

The degree to which the importation of factory commodities has influenced lower forms of commercial production in Eastern countries is a complex subject. Already in the late nineteenth century and in the early twentieth century it was widely thought that the importation of factory products caused irreparable damage to lower forms of production in colonial and dependent countries and that their final destruction is merely a matter of time. Nevertheless, field studies in most Eastern countries following their political independence have shown that pre-factory production continues to play an important role in their economies. In the 1970s the share of pre-factory industries in net industrial output ranged from 10.3 per cent in Turkey and 12.8 in Tunisia to 28.8 per cent in Iraq and 37.8 per cent in Indonesia. [3] In fact the governments of many such countries are seeking to increase this share in order to expand employment.

The preservation of such large numbers of small-scale production in Eastern countries is associated with its specific structure and with a role in the social reproduction system that differs from the one in Europe. A characteristic feature of medieval Europe was a combining of land cultivation by peasant household with extraction and processing activities. Accordingly, economic and social development was accompanied by a gradual increase in the social division of labour and separation of industrial production activities from farming. In short, in the development of crafts in Europe peasant households were first freed from one non-agricultural operation after another as they became an autonomous sphere, moved into cities and produced a wide sphere of ex-

change of agricultural commodities for other products through markets.

In contrast to this in most Eastern countries the combining of crafts with agriculture within a single peasant household was not a typical feature. By the time of colonial conquests three economically and socially distinct groups of lower forms of commercial production had developed, namely, urban crafts, non-communal agricultural crafts that were largely concentrated in villages or rural settlements inhabited primarily by craftsmen; and agricultural intracommunal crafts.[4] These three groups differed not only in terms of their role within the system of social reproduction, but also in the product mix and quality of their products and the markets that they served. These distinctions resulted from both specific features of the historical development of Eastern countries and also from a much greater and earlier social and property differentiation of their populations.

In the case of villages of Eastern countries a characteristic feature was the contribution of a substantial part of the net product of direct producers to the market under the pressure of non-economic forms of compulsion. This non-economically alienated product entered into the sphere of control of the class of feudals, usurers, and merchants, was transferred to cities and served the reproduction of their personal consumption fund and the sustenance of numerous servants. This type of use of the alienated product defined the product mix and character of production of the entire sphere of urban crafts. First, they produced primarily higher quality commodities and luxury products for consumption by society's higher upper strata. Secondly, the very mix of such products impeded their penetration into villages, for they matched neither the incomes nor the needs of the overwhelming part of the village people.

Two other circumstances should be noted. Since by the time of the colonial conquest the alienated product entered into cities largely in monetary form in most Eastern countries the products of urban crafts were generally paid in money. Moreover, even in medieval times a number of urban crafts began to turn to forms of commodity production that served relatively large markets, including exports (silk and porcelain goods in the case of China, cotton cloth in India, arms in Arab countries).

While in most Eastern countries non-communal agricultural crafts did serve other (lower) social strata, their func-

tion was similar to that of urban crafts in that they generally reproduced the personal consumption fund of village populations. This itself determined product mix that was marked by a prevalence of objects serving vital needs (cloth, shoes, dishes). Although these products were generally sturdy their quality was relatively low while their costs were high. The development of money-commodity relations in Eastern countries produced a situation in which a growing share of products of non-communal crafts was sold for money. In all countries, however, a relatively wide sphere of direct product exchange among non-communal craftsmen and peasants continued to exist.

Intracommunal crafts, on the other hand, were closely associated with the reproduction of agriculture's productive consumption fund. They included the production of such instruments of labour employed by peasants as agricultural implements, harnesses for draft animals, carts, and irrigation equipment. The level and quality of these products corresponded to the state of development of agriculture, while exchange activities between craftsmen and peasants were primarily in kind. Terms of exchange were governed by tradition and in some cases were sanctified by religious norms.

One may, apparently, infer the following objective principle governing the development and differentiation of crafts in Eastern countries: as the level of exploitation of the direct producer in agriculture increases, so does the volume of alienated product concentrated among exploiting classes, and hence the size and differentiation of the demand for urban crafts. And conversely, as the level of exploitation of direct producers increases, their own consumption fund declines and less could also be assigned to local reproduction. This resulted in a less intensive development of intracommunal and non-communal crafts, a relatively narrow product mix and low quality.

Colonial conquest further intensified the exploitation of direct producers, and market oriented production, as well as elements of compulsion in introducing new export crops and importing finished goods that competed with local ones. The extent to which these changes influenced various types of crafts in Eastern countries was highly uneven and depended largely on the uses to which the alienated product was placed.

Clearly it was necessary that the entire product corresponding to taxes had to be sold, that is, enter into the commod-

ity economy. The latter's widening was therefore directly proportional to increased levels of taxation. Following colonization, however, that commodity product began to serve the interests of the ruling classes of the metropolis rather than those of local feudal classes. Insofar as their needs and tastes were different from those of local feudal classes this resulted in the use of commodity products for purchasing still other commodities, particularly those produced in the metropolis itself. This is why in spite of increased land taxes demand for urban crafts declined by a magnitude equal to the share of the land tax that was earlier utilized for these purposes.

As for increases in rent and in usurious interest there is no clear correspondence with increases in commodity circulation. It is widely known that traditional receivers of rent in Eastern countries spent a fairly substantial part of the product that they received in kind for personal consumption, large numbers of servants, and priests. Thus only a part of the collected rent entered into the sphere of market circulation. Following colonization, however, there were changes in the manner in which means received from sales of production on markets were used. The need to maintain social prestige in the new conditions called for a shift to the purchashing of particular commodities produced by European industry, including furniture, watches, and carriages. [5]

It would appear that the difference between the output that was collected and that which entered the market and which corresponded to usurious interest was especially large: aside from personal consumption that product was also used for making loans in kind. Both interest and the loan itself could also be extinguished by alienating the debtor's property or else through labour services in the creditor's household. While merchants and usurers became the largest stratum of exploiting classes in the colonial period and their share in the gross social product increased, the role of "capitalized" means in their incomes also increased as colonial and dependent countries became more involved in an international division of labour. In the specific conditions of Eastern countries that stratum did not become a purchaser of higher quality goods.

As Eastern countries became colonial appendages of the capitalist West it was their urban crafts that suffered most. Their volume of output declined sharply, some crafts disap-

peared completely, and the quality of products declined. But this was attributable not so much to factory competition (for by their nature and quality these products did not compete with each other) as to a redistribution of society's net product in favour of colonialists. [6]

Although the ruin of urban crafts was not a direct consequence of factory competition it did open new possibilities for extending the markets of machines industries. Above all, as has already been noted, for a variety of reasons the traditional exploiting classes of Eastern societies shifted to the purchasing of factory products. Beyond this a substantial part of the population (craftsmen and persons who had served them) were displaced from the sphere of urban production and became purchasers of cheaper factory goods.

The state of rural crafts, on the other hand—both non-communal and intracommunal—was closely linked to the situation in agriculture and the fate of direct producers. Because possibilities for maintaining needed proportions and continuity in reproduction deteriorated in agriculture as a result of increasing colonial exploitation and a forced market orientation of output these processes influenced intracommunal and non-communal crafts in different ways.

Increasing instability in the reproduction of peasant farms produced a situation in which peasants were no longer able to acquire as many goods of non-communal craftsmen within established time limits as he did earlier. The only way out for craftsmen was to shift from meeting individual orders to working for the open market, i.e. to become commodity producers. Frequently this also changed the nature of transactions as craftsmen turned from exchange in kind with peasants to monetary exchange. But that transformation itself also led small-scale producers to compete with imported factory goods.

In view of the extremely slow development of Eastern countries in the colonial period and corresponding rates of development of alternative spheres of employment, factory competition resulted in a complete loss of all sources of livelihood, rather than, as in Western countries, in a simple shift of craftsmen from pre-factory and precapitalist industries into factories based on capitalist industries. As a result the compensation of the craftsmen's living labour decreased and the means of their existence declined to a physical minimum. At the same time craftsmen shifted to the use of less expensive factory-produced semi-processed goods (yarn,

tanned leather). This made it possible to reduce overall costs of production and to better withstand the competition of factories.

The development of price competition and the penetration of Western European factory products was also impeded by the exceptionally differentiated character of demand in Eastern countries. A prolonged preservation of ethnic, national, religious, climatic, and social differences in demand required a similar differentiation of production activities. Factories with their mass standardized forms of production could not adapt to this specific type of market. In addition the low state of development of transportation linkages in inner regions made possible the preservation of exchange operations in kind between crafts and agriculture. As a result of this and as a gradual transition to the use of factory-produced semi-processed goods took place the scale of activities of non-communal crafts even increased rather than decreased.

The influence of factory competition on intracommunal craft was even less significant. Indeed, the increasing scope of exploitation and losses sustained in market operations compelled direct producers to limit their linkage to markets. This led to a preservation of natural or quasi-commodity forms of reproduction of means of production in agriculture that long remained unchanged. It is this absence of change in means of production and the objective or subjective estrangement of direct producers from market operations that underlay the preservation of close linkages between agriculture and craftsmen in the reproduction of the productive consumption fund. Under such a mode of production no decline in the prices of means of production required by agriculture could result in a penetration of that market by factory industries. Accordingly as population and the number of agricultural households increased that sphere of craft production increased absolutely.

While the share of all types of crafts within the overall volume of produced and consumed manufactured output during the colonial period declined in relative terms, the scale of their activities (in terms of numbers of employed, the value of production, net product) increased.[7] That was accompanied, however, by changes in such socio-economic characteristics as the subordination of urban and non-communal crafts to trading and usury capital and even industrial capital, a gradual shift of these types of craft production to capitalist forms of household production and occasionally to

manual forms of manufacture. But it was a specific feature of these processes in the colonial period that the transformation of crafts into early capitalist forms of entrepreneurship occurred not through a transformation of the craftsmen themselves into capitalists but largely through the organization of capitalist enterprises by traditional types of capital. In other words during the colonial period the development of capital "from below" which played such an important role in Western European countries and in North America was the exception rather than the rule in Eastern countries.

Value Methods of Exploitation and the Development of Factory Systems

At the time of colonization agriculture was the dominant economic sector in Eastern countries. It contained the overwhelming part of the population and produced the larger part of both the gross and net social product. When machine industry began to develop agriculture served as a source of accumulation and also provided industry with a market. At the same time as the dominant social sector it was also the basic object of colonial exploitation. As a result the fate of emerging national industries depended directly on the forms and methods of colonial exploitation.

Favourable natural and climatic factors together with centuries-old experience in farming made it possible for peasants in Eastern countries to collect two and sometimes even three harvests each year. Hence labour productivity in agriculture was higher by comparison with European agriculture in the late middle ages. In its turn that sector's relatively high labour productivity reduced the costs of livelihood. This made it possible to extract a much larger share of surplus product than in European agriculture.

Yet under feudalism agriculture could develop only through extensive methods, that is, by cultivating new land and increasing the volume of living labour and draft animals. As the population increased and with it the need for developing lower-quality lands labour productivity in agriculture began to decline. In the meantime the introduction of new agrotechnical methods and improved instruments of labour in the agriculture of European countries, especially in Great Britain and Holland, served to increase labour productivity. Thus by the early nineteenth century agricultural

labour productivity in Eastern countries and in Western European countries began to level off.

The subsequent evolution of all these processes was strongly influenced by colonization and the growing involvement of colonial and dependent countries, as they experienced industrial transformations, into the international division of labour. While agriculture was subjected to combined intertwining influences of both domestic and external factors these should be considered separately in order to arrive at a more detailed picture.

The dominance of agriculture in the economies of Eastern countries made it the major object of influence and source of revenue of colonial authorities. In spite of an already fairly high level of exploitation of direct producers in agriculture this increased even more after colonization. First, a substantial part of Asian territories was occupied by private European trading firms, for which land taxes served as a major source of revenue. Second, it was possible to recruit individuals into the colonial administrative system only by paying salaries that were substantially higher than similar salaries in both the metropolises and colonies. Third, in a number of countries in which plantation economies were being established increased taxation rates were also used to clear required lands and recruit local labour power for enterprises belonging to Europeans.

Indeed, in the nineteenth century the land taxes in Eastern countries were greatly increased.[8] In the colonial period they generally exceeded all norms assigned by traditional law and conventions. At the same time the frequency of tax collections increased. While before colonization taxes were often reduced in the event of natural calamities and regions experiencing major damage could be exempted from taxes altogether such exceptions ceased in the colonial period.

A very large role was played by the fact that increased taxation was everywhere accompanied by a shift from taxes in kind to taxes in money. This led to drastic restructuring of economic activities from producing for direct consumption to producing for the market. At a time when there was a growing involvement of colonial and dependent countries in the international division of labour and when modern mechanized means of transportation were developing a gap between world market prices and prices on national markets narrowed. But the resulting international price

level was made extremely unstable by the emergence of cyclical production patterns in industrially developed capitalist countries. As a result aside from being exploited through taxes direct producers were also increasingly exploited as sellers of commodities.

Large-scale landownership in agriculture was preserved in Eastern countries following their conquest for such landowners cooperated with colonial authorities. In addition this form of landownership was also expanded or else deliberately introduced in countries and regions in which it dit not exist (India, Iraq) in order to strengthen that collaborating class. This is why exploitation by taxing direct producers was increasingly supplemented by rent payments appropriated by large-scale landowners while rates and volume grew continuously in the nineteenth century. It would appear that this can be attributed to three principal causes.

It has already been noted that at precapitalist stages of development economic growth can occur only through extensive methods. Accordingly, even maintaining a given level of simple reproduction per capita called for a continual extension of land under cultivation. Yet in a number of cases the declaration of an ultimate title to land by the colonial state created an investment barrier to the development of new lands, for extending land being cultivated now required that it first be purchased from colonial administrative authorities. Beyond this the transfer of some lands to European colonists or their enterprises produced an absolute decline in land available for cultivation by native populations.

Demand for land also gradually increased. Given an extremely slow expansion in alternative spheres of employment the ruin of lower forms of industrial production together with a gradually increasing rate of population growth after the late nineteenth century resulted in an absolute and sometimes also relative expansion in rural populations. The consequent increase in the demand for land was reflected in the increase of the number of persons ready to pay a higher rent to preserve the source of their living.

The involvement of Eastern countries into the international division of labour and the possibility of exporting agricultural produce to the world market changed the position of landowners. While earlier direct relations had prevailed in reproduction and the collection of rents in kind placed

clear limits on their magnitude these limitations vanished once it became possible to turn to the world market. [9] Now increases in rents allowed landowners to raise the surplus product that he realized. These developments led landowners to continually seek to increase their rents, particularly since demand for land was increasing.

Finally, in the case of countries which had ancient agricultural traditions the possession of land enhanced the social status of its owners. Thus individuals were led to acquire land by considerations of social prestige. In addition as the economy was restructured to produce exchange values and as rent payments increased the acquisition of land became a profitable sphere of investment. Beyond this the competition of foreign goods and capitals on colonial markets made real estate, and especially agricultural land, not only the most profitable but also the safest sphere of investment. This is why in the socio-economic situation that developed in the colonial period growing rents led to an increased demand for land. This, in turn, increased land prices which then stimulated further increases in land rent. [10]

The greatly increased volume of alienation of the direct producers' net product resulting from increasing taxes and rents and their involvement in money-commodity relations in the setting of continual fluctuations in market conditions resulting from international as well as national factors served to intensify the instability and irregularity of the reproduction of small-scale producers' household economies. As a result maintaining simple reproduction was not always possible even under normal conditions. This caused agricultural producers to become increasingly dependent on merchants and money lenders. [11]

The high rate of product alienation caused small-scale producers to turn to money lenders not only in exceptional circumstances (natural disasters, sharp price declines) but also for maintaining the continuity of reproduction and even for paying taxes or rents. In its turn the resulting chronic indebtedness made it possible for money lenders to insert themselves between debtors and their markets. Debtors were required to market their products and to purchase needed commodities through money lenders. The monopolization of market linkages allowed money lenders to further add to their incomes through price differencies.

This caused merchant capital and usurious capital to become an element of the reproduction of peasant farms and

led usurious rates of interest to become a major instrument of exploitation of direct producers. In "normal" circumstances the mechanism of usurious capital brought about a deterioration of conditions of reproduction while in exceptional conditions it led to losses of landownership by peasants on a vast scale, to the transfer of land to money lenders, and to the transformation of former owners into tenant farmers. The result of that form of extinguishing debts was a temporary reduction in usurious interest with a simultaneous increase in rental payments. That process was especially pronounced in the last decades of the nineteenth century and also at the time of the world economic crisis (1929-1933).

Throughout the second half of the nineteenth century and the first half of the twentieth century the volume of output of peasant farms that was alienated through non-economic methods generally increased. But this was accompanied by both a decline in the relative share of taxes together with a rapid increase in that of interest payments to money lenders. By the time Eastern countries achieved political independence this had become the dominant form of exploitation of the peasantry. It would thus appear that a relatively developed capitalism increased the effectiveness of trade and money-lending methods of product alienation and made them more profitable than direct, non-economic state compulsion.

Increases in norms of exploitation of peasant farms accompanied their forced transformation to a market-orientation and this constituted an additional burden. This makes it appropriate to consider problems in marketing nationally produced values.

In Marxist political economy it is assumed that a transition from simple to developed capitalist (commodity) production is accompanied by the formation of an average rate of profit. As a consequence commodities begin to be exchanged not in accordance with their value but rather with the price of production, which represents a transformed form of value. [12] Such forms of exchange entail a redistribution of surplus value in favour of those producers whose level of organic composition of capital and productivity of labour is greater.

In mixed colonial economies the objective governing principles that are characteristic of capitalist economies expressed themselves in modified form. In particular, two major

circumstances influenced the formation of value proportions and terms of exchange. One was that the price formation mechanism developed under the influence of an involvement of Eastern countries into the world capitalist economy as unequal participants who were themselves unable to correct the processes that were taking place. In short since Eastern countries were deprived of the possibility of manoeuvring with the help of such instruments as tariff duties, subsidies, etc. the level of correlation between world prices and internal prices for commodities on their markets was extremely high. This was reflected not so much in the price levels themselves which differed substantially as in their patterns and direction of change. The second factor referred to the following. The commodity exchange economies of Eastern countries developed from three groups of commodities that were characterized by different motivations, as well as conditions of production and production techniques, namely, 1) goods produced by either local or foreign capitalist entrepreneurs that were exchanged at price of production, 2) commodities produced by local small-scale producers and exchanged at value, and 3) use values produced by small-scale producers and transformed into commodities under the influence of non-economic forms of compulsion; it may be introduced into circulation by the small-scale producers themselves, by feudal landowners, or else by merchant and usurious capital. Since these goods were produced as use value they should be exchanged at their values.

In principle, the terms of commodity exchange and its value proportions are determined by the nature of the dominant form of social production in the given society at the time under consideration. In Eastern countries the basic mass of commodities consisted of alienated products of peasant households, produced under inferior conditions (it should be recalled that small-scale commodity producers, especially in agriculture, were able to emerge only in the presence of a favourable set of circumstances). Accordingly, it is the value of that group of commodities that should have played a determining role in the creation of national value. In addition, since the overwhelming part of commodities originated in households of direct producers or of small-scale commodity producers they should be exchanged at their value.

In fact, however, capitalist methods of production already prevailed in the world economy characterized by low costs

and exchange at prices of production. It is the political and economic monopoly of metropolises that made it possible to introduce capitalist exchange relations into economies that were at an early stage of development of commodity production.

But it is well known that only those branches in which an unimpeded reallocation of capital exists are the participants in commodity exchange at prices of production. Yet such a reallocation of capital did not exist in the agriculture of Eastern countries. Production prices were therefore formed instead in the sphere of circulation, and direct producers were forced to sell their output at prices below the cost prices. In short, such terms of exchange led to a redistribution of a substantial part of the net product of direct producers to the advantage of capitalist entrepreneurs. Since in the context of "metropolis-colony" systems it was the economies of metropolises that represented capitalist formations, the changes in value proportions and product redistribution that took place operated to the advantage of capitalist entrepreneurs in the metropolises. This is then, the theoretical foundation of the disrupting of value proportions that occurred in Eastern countries and of exchange activities at prices below national values. [13] In addition certain characteristics of internal marketing in Eastern countries further intensified this disparity between national values and salable prices.

The transformation of products of direct producers into commodities originated in village markets or local markets. The underdevelopment of transportation, the need to meet obligations immediately after harvest time, and the absence of reserves and the warehouses of direct producers resulted in a practice in which immediately after harvests agricultural produce was delivered to markets in quantities that exceeded possibilities for its immediate sale and exports. This is why one could observe seasonal declines in prices throughout the entire colonial period by comparison with both preceding and average levels. In cases in which a product was purchased from peasants on the basis of earlier advances the first stage of commodity metamorphosis took place at prices that were even lower than those on local markets. For a certain part of the commodities the movement ended at that point: it was at these prices that they entered into local consumption (sometimes with preliminary treatment). The other part of the commodity, having passed

through several intermediaries, was channelled into trading centres and industrial centres or else to export: with each locational change their price increased—partly because of increasing circulation costs (transportation, packing, storing, cleaning) but largely because of increasing incomes of trade intermediaries.

It would appear that until the late 1920s the maximum level or ceiling of commodity prices on the domestic markets of Eastern countries was governed by world prices of corresponding commodities or else of substitutes. Given a country's unrestrained engagement into the world economy at the state level prices exceeding corresponding international market prices would automatically lead to a loss of competitiveness and financial ruin. World prices, for their part, reflected not only the objective principles governing capitalist production and exchange, but also open and hidden state export subsidies, and in the twentieth century—the dumping practices of monopolies as well. As a result, even "maximal" internal prices remained below national values.

It should be noted that the actual level of prices in Eastern countries was below their ceiling. First, only a relatively small part of commodities attained such a ceiling level, for with every transfer of commodities from one intermediary to another a certain part was consumed either in the form of personal consumption or of productive consumption. While prices increased with each transfer, their average level in the country was determined by the sum of the corresponding average weighted prices on different level markets. Second, the strong position of foreign capital in the sphere of production, finances and large-scale trade (wholesale and export trade) allowed it to regulate internal prices to its own advantage, for lower prices at the last stage of circulation, especially of raw materials, increased the profits of exporters and entrepreneurs. This resulted in cases in Eastern countries in which maximum threshold purchasing prices were established for raw materials. It is only in exceptional cases that domestic and world prices coincided. Average domestic prices moved even further below national value levels.

The value and the price of labour power, too, was determined in a somewhat specific manner. The vast scale of alienation reduced the direct producers' necessary product to a physical minimum. It was that physical minimum that

determined the basic level of "customary forms of existence and claims" of the emerging working class. Since food was the major component in the value of labour power while its prices remained continually below national values the basic value of labour power was further reduced. Subsequently its growth was held back by such factors as slow increases in skills and literacy, the preservation of traditional life habits, and the low state of organization of the working class.

In addition the intensification of a relative agrarian overpopulation at a time when alternative spheres of employment were developing only slowly contributed to a sharp growth in unemployment whether full or partial. The constant pressure of the unemployed held back increases in the price of labour power. At the same time the slow disintegration of feudal relations contributed to the spreading of oppressive indenture-like relations by limiting the freedom of workers through advances and specific types of labour contracts. This caused the price of labour power to continually remain below its value.

All this resulted in a distortion of value proportions in the economies of Eastern countries. As has been shown, direct producers exchanged commodities at prices below their value. While capitalist industries formally marketed their commodities at prices of production, they purchased raw materials and labour at prices below their value. It follows that actual exchanges took place at prices below national values, i.e. that the sum of all prices of production of the capitalist sector was below the national value. Accordingly, the entire national commodity economy operated at prices that were lower than the value.

Thus the exploitation of direct agricultural producers increased sharply in Eastern countries during the colonial period both through an increase in the share of the product that was alienated through non-economic methods and through a distortion of value proportions. In many cases the scale of alienation was such that it impinged on the necessary product of small-scale producers. But, before we consider the influence of this phenomenon on the socio-economic and technical transformation of economies, it is appropriate to examine the position of industries in the colonial and dependent periphery.

In principle possibilities for appropriating differential rents and for acquiring raw materials and labour power be-

low value favoured the development of manufacturing industries. But a number of aspects of this general proposition should be clarified. Since a major characteristic of Eastern countries was the low cost of their agricultural raw materials (resulting from a distortion of value proportions to the disadvantage of precapitalist producers) this referred primarily to the development of light and food industries. As for branches of heavy industry the exchange of commodities at prices below their value impeded their development. These branches are based, of course, on mineral raw materials, but the law of exchange at prices below values extended to raw materials only indirectly (mineral raw materials themselves were usually extracted through capitalist methods). As a result mineral raw materials were relatively more expensive than agricultural raw materials. Nor did the low cost of labour power help: branches of heavy industry are characterized by a higher organic composition of capital, and saving in the wages fund play a smaller role in production expenditures. In fact the low cost of labour power itself became a major impediment to the further growth of heavy industry. For stimulating of all-round saving of fixed capital and the use of equipment until it is completely worn out serves to limit demand for modern means of production.

But it would seem that conditions that were favourable to the development of manufacturing industries are hampered by the fact that the mechanisms that are required for a productive realization of capital are not yet formed in the context of colonial or semi-colonial economies. "In backward areas a new industrial venture must frequently, if not always, break virgin ground. It has no functioning economic system to draw upon. It has to organize with its own efforts not only the productive process *within* its own confines, it must provide in addition for all the necessary *outside* arrangements essential to its operation." [14] In other words, since in Eastern countries the volume of the initially advanced capital was substantially higher than in Western countries, the range of industries in which it was in fact profitable to create new enterprises was substantially reduced.

But possibilities for establishing them are determined not only by the volume of initially advanced capital and prices for raw materials and labour power. The needed conditions also require sufficiently large and suitable mar-

kets. It was shown earlier that domestic markets were extremely limited because of the competition of imported goods, the preservation of pre-factory forms of production, and the excessive exploitation of these countries' agrarian population. As a result the number and size of industries that could effect a transition to factory methods of production proved to be quite limited.

* * *

There were no signs of an autonomous emergence of capitalism in Eastern countries during the colonial period. There capitalism was a secondary phenomenon deriving from its Western counterpart. Yet capitalism was not simply transferred to the colonial and dependent periphery. As it entered into a different socio-economic environment it interacted with the production relations of predecessor formations and with local customs and traditions thus acquiring new forms and traits.

During the colonial period legally, politically and economically colonies were integral parts of the particular colonial empire which was led by a particular metropolis. "Metropolis-colony" systems formed a contradictory whole. It was a unity because with the help of power the metropolis involved its colonies into a single reproduction cycle both in an economic and a social sense. But since that unity was based on inequality, exploitation and a stagnation of economic branches not included into the synthesis, it was continually undermined by national liberation movements and the striving of colonies towards independence.

It is precisely within the framework of a "metropolis-colony" system that a capitalism was transferred into colonies. But in colonial environments the penetration of capitalism into the sphere of material production proved to be especially difficult. At the same time, foreign domination, which made possible the wide use of methods of non-economic compulsion, provided relatively favourable possibilities for mastering the stages of exchange and distribution. Of course, foreign capitalism did not gain control over the entire sphere of exchange and distribution simultaneously. While the acquisition of control over external economic relations was rapid and comprehensive control over the colonies' domestic exchange activities and internal dis-

tribution proceeded much more slowly. It would appear that capital was able to penetrate only that part of domestic circulation that had already taken the form of money-commodity relations. But even there, in the great majority of Eastern countries, and especially in large ones, foreign entrepreneurs found it necessary to cooperate with local merchant and usurious capital. It is precisely that cooperation or "comprador" activity that produced an initial bourgeoning of local capitalism. Finally, capital was not able to penetrate into the sphere of non-commodity exchange. Nevertheless, measures designed to bring about a forced transformation of colonial countries into suppliers of raw materials on the world market, and to force a market reorientation of the household economies of direct producers resulted in a continual extension of the sphere of exchange and distribution that was controlled by capitalism.

As a result precapitalist relations disintegrated and capitalist structure appeared. Involvement into the world capitalist economy and a subordination to the capital of metropolises which had attained an advanced socio-economic level intensified such a transformation of local merchant and usurious capital, frequently endowing even precapitalist relations with a capitalist appearance.[15] But this first occurred in regions of specialized agriculture, particularly those working for export. In distant inland regions of Eastern countries, on the other hand, traditional precapitalist relations were generally preserved.

At the same time such factors as the regular uncompensated redistribution of values of Eastern countries in favour of metropolises, the competition of foreign commodities on domestic markets and discriminating measures of the colonial administration lent a pronounced specific character to the process of socio-economic evolution. In Western European countries and North America a separation of direct producers from means of production was accompanied by their displacement from spheres of traditional employment and their relocation in capitalist production, particularly in industry, where they were combined with new means of production now as wage workers. In Eastern countries where during a prolonged period of time capital was primarily concentrated in the sphere of circulation, an indirect, mediated subordination of labour to capital was more typical. There in order to extract surplus value capital often relied either on traditional organizational forms

in production or else recombined former direct producers that had been separated from their means of production with means of production under more adverse conditions. Since indirect forms of subordination of labour to capital accorded most with the interests of metropolises by making the exploitation of colonies "cheaper", a further socio-economic transformation of colonies and of dependent periphery was impeded not only by traditional local exploiting classes but by the entire colonial administration structure as well.

This type of socio-economic development lent a greater specificity to the capitalist structure developing in Eastern countries. So long as capital operated only in the sphere of exchange and distribution it served as an appendage to the industrial capital of metropolises while capitalist structure itself was a direct prolongation of capitalism of the metropolis. Only following a transition to the mastering of the phase of production activities that a subordination of capital in the circulation sphere to industrial capital begins, and hence a gradual transformation of compradors into a national bourgeoisie. This is why the capitalist structure of Eastern countries included traditional forms of merchant and usurious capital, gradually effecting a transition to capitalist methods of operation; merchant capital serving as an appendage of the industrial capital of metropolises, and, finally, a national bourgeoisie active in all economic spheres. Depending on the country's level of development the manner in which these parts combined varied.

The composition of the working population associated with a capitalist structure was even more heterogeneous. By far its greater part consisted of different groups of producers (ranging from formally independent commodity producers to sharecroppers) controlled by capital in the sphere of circulation and serving both domestic and external capitalist production. Another relatively numerous population group was engaged in various early capitalist forms of production. The top of this pyramid was occupied by wage workers employed in modern industry, transportation, communications, and plantation economies.

Taken together these circumstances defined relatively rigorous boundaries to the application of machinery. On the one hand their introduction was impeded by the narrow scope of their domestic market and the unrestrained competition of imported factory goods. In addition the

abundance of low-cost labour power long held back the replacement of living labour by embodied labour, thus contributing to the extension of all types of non-mechanized forms of production. In addition, because factories emerged in pre-capitalist environments they often lost some of their advantages, particularly at early stages of their development. [16]

Initially a profitable factory production system was possible only in an industry's export sector. It is there that it could take full advantage of its inherent production characteristics and of the distortion of value proportions noted earlier. [17] It was much later—in the late nineteenth century and the early twentieth century—that the factory enterprises serving primarily domestic markets began to appear in most Eastern countries. Their emergence was associated with such processes as the development of money-commodity relations, the ruin of urban crafts and the reconstruction of rural non-community crafts and the emergence of large-scale European entrepreneurship in plantations, transportation, and extraction industries. But the competition of imported commodities and the discriminatory policies of colonial administrations continued to be strongly felt on domestic markets and this caused progress in individual branches serving the domestic market to be slow and uneven.

Even though by the middle of the twentieth century, when the overwhelming majority of Eastern countries had achieved political independence, a capitalist structure had developed in nearly all of them as well as some branches of factory industries comprehensive industrial transformations, particularly in their classical sense, had not yet been completed. In spite of nearly a century of development local capitalism did not become dominant either in terms of the number of persons employed or of volume of output. Nor did the local mechanized industries succeed in overcoming lower forms of non-mechanized production and gain decisive positions on domestic markets. It would appear that under colonial forms of dependence in most Eastern countries a completion of industrial transformations in both a socio-economic and technical sense was practically impossible.

Nevertheless, during the second half of the nineteenth century and the first half of the twentieth century, Eastern countries carried out a substantial socio-economic evolu-

tion and accumulated a definite potential for subsequent development. This included the formation of a capitalist structure and of associated transitional social structures, an emerging participation in an international division of labour, and the appearance of initial industrial productive forces in the sphere of material production and in transportation. While without political changes, without overthrowing colonial dominance that potential could not be realized, it was precisely this potential that underlay the increasingly rapid development of capitalism in most Eastern countries following their political independence, and their initiation of industrial development.

CHAPTER III

New Conditions of Development After Independence

In the colonial period colonies were an integral part of the "metropolis-colony" system and thus an integral part of the world capitalist economy.[1] The unequal relations that developed within that system produced two fundamental consequences. On the one hand the introduction of elements of capitalist relations and the involvement of colonies into the international division of labour served to disorganize lower structures and the emergence of industrial productive forces. This predetermined a subsequent capitalist approach to the development of most Eastern countries. At the same time it was precisely the use of colonial methods of exploitation and the active involvement of Eastern countries into an international division of labour that account for a wide reliance on non-economic methods of compulsion as one of the basic forms of exploitation and the wide conservation of precapitalist and transitional forms of socio-economic relations. In turn these relations limited both the scope and the possibilities of a transition of local capitalism into more mature forms, and that also impeded the further development of industrial productive forces.

Their low state of development was thus due to a combined influence of exogenous and endogenous factors. Apparently a transition to development required a substantial attenuation or else a full overcoming of the unfavourable exogenous influence on economic and socio-economic evolution processes, in other words, required political independence.

Most Eastern countries achieved political independence in the late 1940s and early 1950s. Following their conquest of political independence the "metropolis-colony" system collapsed first at the legal level and then also in fact. This produced a number of extremely serious problems for the newly liberated countries.

In relation to colonies the meaning of "external conditions" and "external factors" was somewhat conditional. For colonies were influenced not only by the world market and the world capitalist economy but also by such factors as the purposeful activities of colonial administrations, their metropolises' legislation and ideology, and the customs and habits of foreigners residing in colonies. Such external factors operated within the colonies themselves; there they interacted with internal factors.[2] It was only following the collapse of the colonial system and the emergence of national states that a clear differentiation of external factors of growth became evident as well as a transformation of external factors into independent instruments for influencing former colonies.

In the meantime the role of external and internal factors in various groups of developing countries is uneven. Studies of Soviet and other research scientists show that there are significant differences in the development of relatively large countries and small countries. Large countries are generally those with a population of more than 10 to 15 million persons, the figures for small countries are up to 10-15 million. A comparison of large and small countries that have attained a comparable level of development (in terms of national income per capita) makes it possible to identify the relevant general principles.

In the case of large countries a much smaller share of their gross national product is usually mediated by external economic ties, and external resources (as a share of GNP) play a much smaller role in their development. Beyond this the level of development of local industrial production is higher in large countries, as is that of branches associated with their industrial complex and also the share of manufactured products consumed per capita.

Finally, the national economies of large countries possess a far greater inertial mass and this causes change rates to be slower.[3] At the same time the changes themselves are of less reversible character. In short internal growth factors play a much greater role in large countries.

In terms of the number of large countries that they contain and also their population the continents differ greatly. Only a fourth of Africa's population lives in large countries. That figure is one half for Central and South Ameri-

ca and more than 90 per cent for the non-socialist countries of Asia.[4] This is why, with certain reservations, one may say that the influence of internal factors is especially characteristic of Asia and less of Africa. Conversely, external factors are especially important in Africa and less important for developing countries in Asia.

But the differentiation of external factors and internal ones and the transformation of the former into truly effective ones altered their influence on national economies. Since as was shown in Chapter II colonies were characterized by a lower level of development of productive forces and of socio-economic relations than their metropolises, capitalism's spontaneous governing principles were not able to express themselves fully. In countries possessing large foreign investments and substantially involved into an international division of labour (Algeria, Egypt, Malaysia, Ceylon) market laws operated more strongly and non-economic methods of exploitation were increasingly supplemented by economic ones. In less developed large colonies compulsion continued to serve as a basic instrument of exploitation. Only non-economic forms of compulsion made it possible to sustain the levels of exploitation that the monopolises required.

Following the collapse of the "metropolis-colony" system possibilities for applying non-economic forms of compulsion vanished. Accordingly, uncompensated appropriations of a part of the net product in the form of taxes, duties, etc., generally ceased to exist. At the same time other non-economic methods of exploitation that had earlier created a privileged position for the capital and commodities of the metropolises within the colonies' internal markets were reduced to a minimum.

It would appear that in the colonial period non-economic forms of compulsion represented a major type of exploitation in Eastern countries.[5] This is why the declaration of political independence itself changing neither economic nor social conditions in former colonies removed a major type of exploitation. In short the transformation of former colonies into independent states made it necessary for imperialism to shift from non-economic to economic methods of exploitation.[6]

Beyond this the collapse of the "metropolis-colony" system was also accompanied by the dismantling of colonial states and the formation of national states. This in turn

made it possible to use non-economic forms of compulsion not in the interests of metropolises but to strengthen the position of local ruling class (or classes).[7] But that could be achieved only by partly limiting the freedom of activity of foreign capitalists in the former colonies' markets.

The activities of national states that served the interests of local entrepreneurs or else their own fiscal interests, by limiting the importation of commodities competing with local products as well as the inflow of foreign capital either in their economies generally or else into individual branches, encouraged national economic development and local entrepreneurship and also limited the scope of economic methods of exploitation. For serving their national interest through changes in rates of currency exchange, tariff systems and relevant legislation transformed former colonies from integral parts of the world capitalist economy into autonomous parts.

That autonomy itself served to sharply limit or even fully dismantle still another instrument of external exploitation of former colonies. Indeed increases in tariff duties and the introduction of non-tariff barriers did increase the prices of imported commodities on internal markets. In turn the price levels of imported commodities determined the system of price formation of all these producers who were affected by the above measures. This produced two consequences. First, there was a reduction in cost of production disparities of various producers and the formation of higher level production prices. This reduced the redistribution of values in favour of capitalist entrepreneurs.[8] Second, by reducing the redistribution of values from production units that were under the state's protectionism, they accelerated changes in the economy's sectoral structure. Beyond this depending on the state of the world market the system of tariff duties allowed the state to either partly or fully appropriate the values that had earlier been redistributed from the national economy to the world capitalist economy.

Autonomy led to still another change in relations between former colonies and the world capitalist economy. The revolution in science and technology, which was accompanied by a relative decline in the world market demand for raw materials from Eastern countries (except for petroleum) and also the further development of productive forces in the Western European countries and in North America, produced a decline in the share of the gross product of devel-

oping countries that was delivered to the world market.[9] It would appear that, other conditions being equal, this should also have reduced the influence of the world capitalist economy on that groups of states' internal processes.

The termination of their colonial status also permitted Eastern countries to take advantage of inter-imperialist contradictions. Their political sovereignty allowed national states to dismantle the one-sided advantages that had been established for commodities and capitals of former metropolises, and this alone stimulated competition among the monopolies of different imperialist states. In addition the monopolies of countries other than former metropolises that were interested in particular types of raw materials or else additional markets were willing to accept more equitable relations with newly liberated countries.

The pressures of national states, inter-imperialist competition, and also the striving of foreign companies to acquire a "national" label have all contributed to their transformation into mixed companies. Their transformation into mixed companies engaged them into common monetarized reproduction cycle with that of local capitalist structure. At the same time import-substituting forms of industrial development in the largest Eastern countries also engaged foreign companies into a single capital reproduction cycle in material form. This served to reduce the autonomy of foreign capital.

Still another circumstance should be noted. The departure of colonial administrators and troops, the development of national education systems, the new status of national languages as official languages and finally the drafting and introduction of national legislation (instead of colonial legislation) greatly limited the influence of external ideology on the greater part of the population. Yet that process has proceeded very slowly : in effect it only began after the collapse of colonial rule.

The reconstruction of international economic and political relations was accelerated by widening relations between developing countries and the socialist community. Three major aspects of this development may be noted. One is an increase in the power of the socialist community and an increase in its support of national liberation movement. In many cases this has impeded military or political intervention by imperialist states in the affairs of newly liberated

countries. In other words, the socialist community became an important factor in strengthening the political independence of developing countries. Second, cooperation with the socialist community has made it possible for developing countries to undermine the monopoly of imperialist countries on deliveries of equipment and in training technical personnel. New branches of industry were established in Eastern countries with the help of socialist states. It is worth mentioning that the development of these branches had long been opposed by Western monopolies. Third, cooperation with socialist countries undermined the West's monopoly on credit: the very first credit arrangements provided by the Soviet Union in the late 1950s exerted a substantial influence on the new national states' capital markets.

Economic literature usually emphasizes only one of the resulting consequences, namely, the adaptation of monopolies to contract terms proposed by socialist countries. Indeed, during the 1960s and 1970s there was a gradual abandonment of military or else political conditioning of credit, a reduction in proposed interest rates and a lengthening of repayment periods. Yet another dimension was equally important, namely, an intensifying struggle of two socioeconomic systems and the emergence in a number of developing countries of a possibility to adopt a socialist way of development. This forced developed capitalist states to place increasing emphasis on the development of capitalism in developing countries and on transforming them into a reserve of world capitalism. In addition the very continuation of an exploitation of Eastern countries under the conditions of modern state-monopoly capitalism required a certain development of productive forces in the East: in a situation in which heavy industry plays a dominant role within the economic structure of imperialist countrie's machines, equipment and mineral raw materials play a leading role in world trade. In order to participate in corresponding exchange activities Eastern countries must themselves effect a transition to machine methods of production.

But the revolution in science and technology that was accompanied by a restructuring of productive forces in developed capitalist states altered the proportions of existing demand for the the raw materials of developing countries. Changes in technological processes, the introduction of synthetic substitutes, and an increased production of raw mater-

ials in the developed capitalist states themselves produced a relative and sometimes an absolute decline in demand for many of the developing countries' raw materials.[10] The resulting excess of supply over demand was further intensified by the growing production of certain raw materials in the developing countries and increased competition among them on the world market. Together with the activities of international monopolies these developments led to a continuing deterioration in the terms of trade of most raw material products in the 1950s, 1960s and 1970s.[11] In short, given the price proportions that were shaping many developing countries were even unable to assume a simple reproduction on the basis of internal resources let alone effect a transition to expanded reproduction.

The energy crisis of the early 1970s exerted an enormous influence on developing countries. On the one hand, it led to an increase in the prices for fuel, especially for petroleum and petroleum products, and this improved the position of oil-exporting countries. On the other hand, both increases in fuel prices and subsequent cyclical and structural crises in the economies of developed capitalist states resulted in a sharp deterioration of the capacity of most newly liberated countries for growth, since they were now forced to buy petroleum at prices that their economies could not sustain.[12] Accordingly, the energy crisis increased disparities in development and differentiation of Eastern countries in relation to major economic and social indicators.

But the energy crisis also shows that in the longer run a more favourable situation may develop on world markets for some Eastern countries. This is because most of the currently unmastered natural resources are found in developing countries. At the same time the rapid depletion of known natural resource deposits and the establishing of state sovereignty over natural resources in developing countries allows corresponding countries to eventually charge a monopoly rent for such resources as well as a differential rent. A monopoly rent in turn may sharply increase that group of developing countries' investment resources.

The socio-political and economic difficulties that were experienced by newly independent countries adopting the capitalist approach to development produced by the late 1940s the new phenomenon of foreign economic assistance. Initially this served as an additional mechanism in exter-

nal economic relations that provided additional markets to imperialist states and greater possibilities for domestic accumulation and a productive realization of capital to developing countries. From a socio-political point of view that aid was designed to prevent social upheavals and stabilize existing regimes.

Since the mid-1960s economic assistance was increasingly turned into an instrument of socio-economic transformation in developing countries. [13] A major difference between providing economic assistance and exporting capital is that in the present situation the former does not require a self-generated increase in value for countries or organizations that provide it. Indeed, it is difficult to speak of self-generated increases in value when the corresponding average interest rates in the 1970s were approximately 2.5 per cent per year, while the average yearly growth in world prices was 7 to 8 per cent. In such a context, another role of assistance is much more apparent, namely, the function of an expanded reproduction of capitalist relations in receiving countries. Economic assistance thus became a major instrument for accelerating capitalist development in newly independent countries. That is why this economic assistance increasingly concentrates in the so-called least developed countries, where capitalist relations are still poorly established.

In the 1960s and 1970s still another factor appeared in the system of international relations, namely, an accelerated development in relations among the newly independent countries themselves. Various regional and sub-regional organizations of developing countries emerged (cultural, scientific and technical, economic, religious), regional economic groupings began to be formed, and external economic relations among them widened greatly. Following increases in petroleum prices a growing flow of loan and entrepreneur's capital also developed from petroleum-exporting states to other developing countries.

In widening that co-operation and continually developing new forms of competition developing countries are seeking to both obtain concessions from imperialist states, making relations with them more equal and beneficial and also to protect themselves as much as possible from the destructive influences of the world market through collective self-reliance in technological development, production, and reciprocal trade. [14] It is evident that such relations can be developed only when relations among such developing countries

themselves are relatively equal and free of obvious forms of exploitation. [15]

In short while in the colonial period external influences were unequivocally exploitative for developing countries they acquired new contents after political independence. Today these countries are experiencing the influence of the socialist community supporting their struggle against imperialism, for national sovereignty and for establishing a system of equal relations on the world market. At the same time relatively equal relations are developing among the young states themselves. While relations with imperialist states continue to be exploitative the changes in form of exploitation that are taking place in the present situation are resulting in a substantial acceleration in the development of capitalism in most newly independent countries.

While their participation in international division of labour and their relations with the world's main centers of capitalism determine a constant influence of exogenous factors on developing countries, the nature and intensity of which are constantly changing. It was already noted that to the extent that former colonies become autonomous parts of the world capitalist economy and that non-economic forms of compulsion by former metropolises are overcome, other conditions being equal, the role of external factors begins to decline. Other factors that also contribute to this include the departure of colonial administrators, of foreign specialists working in various branches, and a decline in the inflow of private foreign capital in view of uncertainties in the investment situation.

As economic growth rates increase and the structure of economies is altered the influence of external factors begins to increase again, for it is precisely during restructuring that developing countries experience a great need for both material and financial external resources as well as foreign specialists. Of course the scope of such influences depends on development trends, the specific features of the capitalist systems being formed, and other factors. In the case of relatively large countries following a strategy of import substitution the influence of external factors reaches a peak when the first national industrial complex is formed and then begins to decline. But any subsequent restructuring and modernization of such complexes greatly increase the influence of external factors. Conversely in relatively small

countries pursuing policies of export specialization their increasing engagement in an international division of labour and into the world capitalist economy serves to increase the influence of external factors of their growth.

It may thus be said that a country's degree and level of dependence on external factors depends on the stage of restructuring of its economy and its strategy of development. Since Eastern countries currently find themselves at various stages of economic restructuring and rely on different methods to achieve this, the degree to which they are influenced by external factors is also highly uneven. This in turn has created different situations for individual countries for their subsequent economic growth.

The achievement of political independence thus leads to tangible changes in the relations of Eastern countries with imperialism. While within the world capitalist economy by far the greater part of these countries continue to represent a dependent and exploited periphery in a number of cases the level of exploitation has declined and its forms have changed. At the same time in analysing the present situation it would apparently no longer be appropriate to apply the term "dependent and exploited periphery" uniformly to all Eastern countries. First, the establishment of the socialist community and the emergence of a more advanced socio-economic formation has produced a situation in which it is no longer inevitable that all Eastern countries must follow a capitalist way of development. This is vividly illustrated by the experience of countries developing in terms of a socialist approach. Second, even capitalism-oriented countries that find themselves in relatively favourable economic conditions are able for the first time to gain tangible benefits from their mutual relations with imperialism. Clearly the actual extent of such advantages depends on a variety of domestic as well as external factors. Yet the phenomenon itself is evidence of a further deepening of capitalism's general crisis as a social formation.

The Functions of the State in Developing Economies

Following the dismantling of the "metropolis-colony" system the state-monopoly capitalisms of the former metropolises operate as a specific type of external factor in relation to their former colonies. As a result of the departure of the metropolis the capitalist sheath that had enveloped the for-

mer colony, as it were, is removed; there remains an economy within which various types of precapitalist relations dominate both absolutely and relatively and in which the higher mode of production is no longer the metropolis's capitalist formation but local capitalist formation. It is precisely this formation that now assumes the developing economy's system-forming and integrating functions. But the integrating potentials of a local capitalist structure are weaker than that of the metropolis's capitalist formation.

Economically this weakness derives first from its relatively small quantitative size. Second, from a lower socio-economic and technico-organizational level than that of a metropolis and also the dominance of lower forms and types of capitalist entrepreneurship. Third, from the largely subordinate character of the functions of reproduction processes in relation to foreign capitalist systems. Socially, the integrating potentials of local capitalist formations are limited by the substantially lower share of the bourgeoisie in the country's population than in imperialist states. This appears to unevenly reduce its influence on the population. In addition the transformation of former colonies into autonomous parts of the world capitalist economy has also reduced the influence of bourgeois institutions in a wider sense, namely, in ideology, culture, legal norms and traditions.

Anticipating somewhat a point that will be considered later, still another factor should be noted that served to reduce this integrating potential. As a rule lower socio-economic forms (structures) of production in developing economies are not directly subordinated to the dominant one. Instead, one observes a hierarchical joint subordination of various formations. It was shown earlier, for example, that capitalism exploited lower structures largely through semi-feudal rent taxes, usurious interest, and also traditional merchant capital. Accordingly, legislative measures to overcome (or else undermine) feudal structures were accompanied by both discrete increases in size of the most numerous structures, namely the seminatural and small-scale producers, and a temporary weakening through a disruption of the hierarchical joint subordination that has been noted of their subordination to capitalist formations.

Together these processes have led to a disintegration of ties between various socio-economic forms (structures) of production. Since internal linkages within these forms (structures) invariably prevailed over linkages among them,

the latter's disintegration made possible a stronger assertion of the internal governing principles of development of lower precapitalist forms of production. Together with a low norm of accumulation, the prevalence of lower structures and of corresponding modes of reproduction of the simple reproduction type and of a substantial measure of natural reproduction relations has greatly intensified the creation of precapitalist objective governing principles of the reproduction process. This has produced a decline in the reallocation of material and financial resources among structures and has inhibited external economic linkages.

This disintegration of linkages among structures has limited the redistribution of resources into the most advanced component structure and hence its further development. If carried to its logical conclusion the disintegration of interstructural linkages should lead to an economic stagnation or even an economic collapse of that society. Socially it should cause the exploiting class or classes originally in power to lose their dominant position. Accordingly overcoming the autonomous character of the development of each structure becomes vital for the given society or socio-economic system.

The disintegration of linkages among structures should not be viewed as a sudden leap. Initially it was generated by the transformation of former colonies that had been integral parts of the world capitalist economy into autonomous parts of that economy. But that reconstruction of external economic linkages itself required a relatively prolonged period of time. Subsequently the disintegration of interstructural linkages was further enhanced by measures aimed at limiting or abolishing precapitalist formations. In short, restoring and maintaining disrupted interstructural interactions became a standing task in developing countries over relatively prolonged periods of time.

Interstructural interactions may be restored in two ways: through a more rapid development of the highest structure within the given system and by subordinating lower structures to it through either economic methods or else a sudden extension of non-economic forms of compulsion. While in the long run the first way appears to be the most effective approach to developing capitalism, its practical implementation calls for a relatively prolonged period of time. While the scale of non-economic compulsion, on the other hand, may be extended quite rapidly, that method is more appro-

priate for maintaining existing interstructural interactions rather than changing them, and also requires a considerable intensification of economic activities of the state.

While Eastern countries differed greatly from each other when they achieved political independence in terms of the level of development of their productive forces, their socio-economic system, and the composition of the ruling class (classes) there was a substantial increase in all cases in the economic and social functions of the state.[16] This increase appears to reflect some kind of general objective principles governing the development of newly liberated countries, while the relevant differences among Eastern countries took the form of unequal proportions between the state's economic and social functions, and of different methods for carrying them out.

A widening of the state's economic and social functions in newly liberated countries was not an altogether new phenomenon in the history of the human race. Similar developments had taken place in Western European countries and North America at the time of the establishment of capitalism. Already in the 18th century state institutions were widely utilized to accelerate feudalism's transformation into capitalism, increase the rate of development of capitalism, and reduce the duration of its transitional stages. At that time, the basic measures that were adopted and levers employed to transform economies were the colonial system, state loans, taxes, and tariff protectionism. In countries in which industrial transformations were initiated in the mid-19th century (Germany, Japan), state activities extended beyond these measures and involved its direct participation in entrepreneurial activity.

In the case of developing countries that situation was substantially more complex. While a transition from feudalism to capitalism in Western European states was effected on the basis of relatively similar pre-machine means of production, in Eastern countries it was a transition from pre-machine to machine methods of production. This required not merely a regulation and acceleration of the reproduction process, as in the West, but direct state intervention in order to bring the basic parameters of national reproduction into correspondence with international standards.[17]

The social aspect of that problem was equally important. While in the West state power was needed to ensure the bourgeoisie's victory in the struggle against feudalism, in

Eastern countries developing along the capitalist way it was needed to help the national bourgeoisie and associated strata achieve a victory not only over local feudal classes, but also over the foreign bourgeoisie. In addition, a wide involvement of various strata of the population in political activities following their participation in national liberation movements made the bourgeoisie's relations with exploited classes and strata more complex. In Western European countries the bourgeoisie could count on the support of practically all lower population strata until the very final stages of bourgeois revolutions. In Eastern countries strata of population emerged already at the stage of national liberation revolutions that are active not only in national liberation movements but also in the movement for social liberation. Their numbers are further increased through the social transformations that are carried out by the national bourgeoisie. Thus the tasks confronting states in Eastern countries are much wider than were those of Western states at comparable stages of development while the former's social basis is narrower.

All these factors have produced wider and more complex activities of Eastern states than were those of Western states. Their complex character, however, does not emerge simultaneously. It accompanies that group of countries' economic and social transformation. On the basis of the conditions that developed at the beginning of the 1980s the following economic functions of the state in Eastern countries may be identified:

1. The overwhelming majority of developing countries have experienced an entire age of colonialism, neocolonialism, and various types of economic, social and political constraints. A natural reaction to such external blocking mechanisms was a maximum use of the full power of the state in protecting and strengthening national sovereignty, both politically and economically. Unlike in the case of Western countries, moreover, the state had to protect national economies not only from external influences but also from foreign monopolies that had consolidated their positions inside the newly liberated countries.

2. The reestablishment of the disintegrated interstructural linkages noted earlier required a definite level of non-economic compulsion by the state until the time when this can be replaced by methods of economic interaction. In a situation in which measures to achieve a socio-economic trans-

formation and to limit the influences of external markets were carried out simultaneously only the state could perform these functions.

3. The backwardness of existing mode of production and the need for a relatively simultaneous industrial transformation made unthinkable processes of economic development that did not rest on a substantial socialization. Because of the very great particularism of small-scale production and hence of the net product only the state was in a position to centralize available accumulation to the extent that is needed to modernize the country's entire economic structure. At the same time only the state possessed the resources needed to establish modern branches of industry, basic and social infrastructures, and modernize agriculture and transportation, not only because of their high capital-intensity, but also because their functioning requires that they be established in definite proportions and be linked with each other in specific ways.

4. If they are allowed to flow arbitrarily processes of economic growth and social transformation in developing economies can reduce the effectiveness of aggregate social investments and also generate social tensions. Indeed the modernization of economies produces very different consequences for various classes, strata, and even groups of the population and their position may change in diametrically opposite ways. Such changes may reduce the absorptive capacity of internal markets, alter the composition of effective demand, and increase social tensions. Only the state, making use of all its administrative levers and carrying out economic policies, as well as required socio-economic transformations, can prevent these undesirable factors.

In addition, a widening of the social base of the ruling class required a complex of measures to stimulate the growth of lower strata of the bourgeoisie and consolidate its various groups differing in terms of the sphere to which they applied their capital and of the direction of their activities. This required a purposeful use of monetary and fiscal policies—a task that could only be performed by the state.

One cannot fail to note the heterogeneity of each of these functions in at least two respects. First each of them is associated with an economic and social burden in the sense that they seek to develop productive forces in the context of a certain modernization and ordering of production relations. Second, each represents a combination of social and

class interests. Each is aimed at overcoming backwardness, increasing labour productivity, etc., while simultaneously strengthening the positions of the ruling class.

There are also certain time differences in applying these functions. It would appear that following the achievement of political independence active use is made of the first, second and fourth functions. Following a transition to economic development and changes in external conditions the importance of the first and second functions declines while the forms assumed by the fourth function change as major emphasis is placed no longer on social stability but on a reorganization of social structure in ways that meet the needs of development. The third function, on the other hand, becomes important when a certain stabilization of the economy is achieved and the country shifts from overcoming major disproportions remaining after colonialism to a process of economic development. One may suppose that in periods when there are no sharp economic and social upheavals this becomes the main function in most newly liberated countries. But at subsequent stages of development it is possible that the importance of functions of social protection (the fourth one) will grow, while that of economic growth (the third function) will decline at least in those cases in which capitalism's inability to integrate the major part of population in the foreseeable future is increasingly evident. There one may expect that the importance of the second function will again increase.

These functions require that the state must carry out a diversity of such measures as state control, economic stimulation and direct entrepreneurial activity. Depending on the country's level of development, the character of its ruling class, and other circumstances different combinations of these types of state activities may be observed.

In capitalist countries in which private ownership of means of production prevails the state can influence the economy primarily through indirect methods, that is forms of control that utilize the laws of capitalist reproduction. In developing countries in which capitalist laws do not yet operate in a substantial part of their economy (the lower structures) aside from the utilization of market laws regulation also includes direct administrative intervention. At the economic level the aim of control is to provide greater interactions among individual branches of the economy and various socio-economic forms of production as well as more fa-

vourable conditions for the national economy's interaction with the world market. In short its aim is to create an optimal situation for sustaining current reproduction. In the social aspect the aim of regulation is to help maintain forms of social stability that serve the interests of the ruling class.

Economic stimulation includes a complex of diverse government measures aimed at priority development of the more important branches, and the encouragement of growth and formation of individual strata and substrata of the ruling class. With the help of tax preferences, low rates of interest credits, and long-term state contracts, stimulating measures provide for a priority rate of development of those branches that the ruling class considers to be of major importance. But while this contributes to an overcoming of economic disproportions and favours overall economic growth it also produces a redistribution of the final consumers' incomes in favour of private entrepreneurs. This is precisely the reason why economic stimulation measures express most clearly the class-oriented nature of state activities.

Finally, direct entrepreneurial activity by the state in branches of material production as well as in infrastructures has served as a major factor in overcoming the obstacles to the introduction of machines that derive from the developing countries' socio-economic situations. Above all in conditions in which small-scale production prevails and accumulations are scattered the state, through taxes, domestic and external loans, and deficit financing, has been able to provide the measure of centralization in accumulations that a transition from traditional to modern means of production requires. In addition its possession of relatively large material and financial resources has allowed it to provide the measure of comprehensiveness and mutual complementarity of new branches that the creation of modern productive forces currently requires. Beyond this the state could ignore considerations of profitability and assure the construction of mechanized enterprises that lay beyond the capacity of private businesses or else were being run on a pre-machine basis. Finally, in developing the most capital-intensive spheres of production that were also characterized by a slow capital turnover and by frequently subsidizing the marketing of their product, the state extended the scope of private entrepreneurial activities in the less capital-intensive and more profitable branches.

While the activities of national states in developing countries contributed to a more rapid establishment of a new social system and a technical reequipment of the economies they have also produced in modern conditions a number of contradictions. Let us consider first those that emerge in the economic sphere.

In Eastern countries, with the exception of petroleum-exporting countries, state investment resources were formed through a mobilization of accumulations and compulsory redistribution of the net product of precapitalist forms of production. [18] Had the state utilized these resources for effecting a socio-economic and technical transformation of precapitalist forms of production, that redistribution could be justified from the social point of veiw. But since under existing socio-economic conditions the resources mobilized by the state were channelled to a more rapid formation of local capitalism (state or private) the withdrawal of resources not only made even simple reproduction difficult within the lower formations but also allowed the newly-created enterprises to destroy lower forms of industry. In this way the development of capitalism at one pole was accompanied at the other pole by a stagnation or even a deterioration of lower forms of production.

It was already noted earlier that the state's direct entrepreneurial activity and stimulating measures resulted in the creation of capital-intensive facilities in developing countries that reduced the relative proportion of living labour drawn into new production activities. If one assumes that such an increase in capital intensity will then result in such an acceleration in the rate of development that unemployment including accumulated agrarian overpopulation will be absorbed then a strategy of capital-intensive development appears to be justified. [19] In fact, however, the experience of developing countries shows that the combining of a modest part of the population with the most modern means of production is accompanied by the engagement of a declining share of the new generation into production activities and hence by an absolute and relative increase in unemployment. The resulting pressure on the price of labour power is then such that it becomes advantageous to replace embodied labour with living labour on an extensive scale. This leads to the emergence and self-reproduction of two polar production systems based on machine labour and manual labour respectively.

In the social aspect the development of state capitalism has accelerated the formation of all layers of the national bourgeoisie.[20] But state capitalism has also limited and transformed the normal development of individual strata of the bourgeois class. Above all in order to support social stability and widen the ruling class's social base the entire mechanism of state power in most Eastern countries is used to encourage the growth of lower strata of the national bourgeoisie. This objective is also served by an insufficient consolidation of the internal market—a factor that favours activities of all types of small-scale businesses. Direct state entrepreneurship also limits the growth of the national bourgeoisie, both vertically and horizontally. Indeed, because the state's resources greatly exceed the capital funds of any group of the national bourgeoisie, it also possesses the largest enterprises in all branches of the economy. In that sense its activity impedes the formation of private monopolies. Beyond this the state's intervention into the most capital-intensive or strategically important industries limits private entrepreneurship in individual industries. In most Eastern countries the major part of the national bourgeoisie is concentrated in trade, agriculture, highway transportation, and the sphere of services. Only in more developed countries—India, Turkey, Singapore, the Philippines—did substantial groups of the national bourgeoisie have their say in industry.

The extension of the state's social and economic functions and the emergence of a state sector produced still another new stratum of the national bourgeoisie that may be called the bureaucratic bourgeoisie. This consists of senior officials in state administration and managers of state enterprises. They are linked to the national bourgeoisie by high income levels and a similar position in society, a similar psychological approach, and often close business and family ties. On the other hand, their source of income is provided by work in state administration rather than capitalist production.[21] Accordingly without a state sector that stratum cannot exist.

There are thus significant differences in the composition of the bourgeoisie in capitalist and developing countries. The relative weight of lower bourgeois strata is much greater in the latter and that of the industrial bourgeoisie is less. But the main distinction appears to be that within the elite part of that class that determines its behaviour and policies, the share of the bureaucratic bourgeoisie is far greater. At

the present stage of development this creates wide possibilities for arriving at compromises between different strata of the bourgeois class, and for carrying out policies that better meet the interests of that entire class rather than of one of its groups. Beyond this since the very existence and possibilities for further development of the greater part of the national bourgeoisie in Eastern countries depends on the preservation and strengthening of state capitalism, this causes the development of that group of countries to follow an approach that precludes the forming of classical types of capitalism.

Changing Internal Conditions in Eastern Countries

Aside from activities of the state the economic growth of developing countries is also influenced by the enormous inertia of lower structures and their position within the world capitalist economy. The development itself is thus the resultant of these numerous, heterogeneous and often contradictory forces. In the present section we will accordingly consider the changes that follow not so much from activities of the state as from the combined influence of spontaneous internal and external forces.

Following their achievement of political independence the national governments of Eastern countries had to face a sharp acceleration in the rates of natural population growth—a phenomenon that has come to be known as a "demographic explosion". Its prerequisites began to form during the colonial period. The very need for a "normal" exploitation of colonies required colonial administrations to oppose the most widespread epidemic deseases, namely, smallpox, the plague, and cholera, and this reduced mortality. At the same time the construction of railways and the creation of shipping lines facilitated the delivery of food to regions experiencing natural disasters, and thus helped prevent large numbers of deaths from famine, as had been frequent in the 19th century.

Following an assertion of national sovereignty, the extension of the state's socio-economic functions, a continual assistance by international organizations, and the use of new medicines produced a sharp decline in mortality. At the same time the unchanged character of the population's socio-economic patterns led to a preservation of precapitalist principles governing birth rates, which remained at very

high levels. The outcome of declining mortality and the preservation of high birth rates was a continually accelerating population growth. In Asia average rates of population growth increased from 0.95 per cent in the 1940s to 2.15 per cent in the 1970s. The corresponding absolute increments in population were 124 million persons during the 1940s, 276 million in the 1950s, 384 million in the 1960s and in the 1970s—487 million persons (according to preliminary estimates).[22]

In classical political economy a growing population is viewed as a favourable factor leading to an increase in manpower, a growth in the volume of production, and a widening in the absorptive capacity of internal markets.[23] Indeed under extensive methods of economic development increase in population is itself a factor of economic growth that at least helps sustain rates of growth required by constant rates of consumption. But in developing countries sharp increases in population growth were not preceded by changes in the economy. As a result "demographic explosions" proved to be highly ambivalent phenomena.

Above all rapidly increasing populations produced increasing numbers and shares of lower age groups, and thus of dependents for each able-bodied person. Given a constant labour productivity this brought about a redistribution of society's net product from the accumulation fund to the consumption fund. Estimates prepared by ECAFE indicate that approximately 4 per cent of the national income was needed in the early 1950s to sustain an average yearly population growth of 1 per cent at a constant level of consumption.[24] In other words, with existing average yearly rates of population growth in developing Asian countries and an average capital intensity of national income to maintain a constant volume of consumption the expenditures equivalent to 10.4 per cent of national income were required.[25]

In addition more rapid rates of population growth continually increase the army of able-bodied persons. This requires additional resources needed to provide them with means of production. Because developing countries are at a stage of transition from extensive to intensive methods of development, the capital investments that are needed to create each additional job must continually grow. This in turn requires continual increases in accumulation rates.[26]

Finally, during transitions from extensive to intensive methods of development, the requirements for living labour

per unit capital investment declines, and a so-called technological unemployment emerges. This is greatly increased by an increasing population growth. Thus newly liberated countries face a double problem, namely, to elaborate strategies of development that not only increase labour productivity but also increase employment.

In short, while the demographic situation of developing countries is a major stimulus of economic growth it at the same time reduces both possibilities for introducing machines and the intensity of the overall industrial transformation. In this respect, it differs from that of Western countries, where reduced rates of population growth and also emigration served to accelerate the process of technical re-equipment.

A second major problem confronting Eastern countries after political independence is to dismantle the remnants of feudal particularism, which had been preserved and supported by colonial administrations. In such Eastern countries as Burma, India, Indonesia, Malaysia, Pakistan, and South Yemen there existed so-called indirectly administered formally independent "native" states (principalities or sultanates), possessing anachronistic laws, traditional taxation systems, and an extensive use of forced labour. Tribal formations were preserved in independent countries of the Middle East that possessed a substantial measure of internal autonomy. But even on the territory of the colonies themselves transit and urban duties were collected to increase the incomes of lower ranks of the colonial administration, and to encourage various forms of entrepreneurial activity. Such practices impeded the development of monetary and commodity relations and the formation of a single national market.

It seems evident that it was necessary to overcome such remnants of feudal particularism in order to increase rates of economic development. This was equally important from a social and political point of view. The existence of such formally or else factually autonomous entities in Eastern countries could serve as a constant threat to the integral unity of newly liberated states, be used by imperialism to exert pressure and constitute chronic sources of social tensions.

This is why in nearly all Eastern countries national states initiated measures to integrate and consolidate their internal markets. While in a number of cases former "native" states

retained a certain measure of autonomy, unified legislation was introduced in each country as well as common principles and rates of taxation and impediments to the internal movement of commodities and of capital were abolished. While these measures could not produce immediate economic results over the long term, however, they not only stimulated a growth of monetary and commodity relations but also an economic specification of individual regions and farms.

The abolishing of "native" states and of the factual independence of their rulers did itself constitute a decisive blow to precapitalist relations. These measures were followed by agrarian reforms that replaced feudal forms of landholding either completely or in part. Because ruling class (classes) in Eastern countries were closely associated with landholders of the feudal or semi-feudal type such agrarian reforms were often not very radical. At the initial stage in most countries they were limited to a transfer to tenants of only legal rights to the land. While abolishing feudal relations they preserved inequalities in property ownership. The implementation of reforms also became a relatively prolonged stage-by-stage process, and at each stage the state sought to find compromise solutions facilitating the task of local precapitalist landowners to adapt to changing conditions. While measures were taken to redistribute land (in return for compensation) in many Eastern countries in the early 1960s in none of the countries following a capitalist approach to development was the agrarian problem conclusively resolved. [27]

It should be noted that such reforms in developing countries were largely concerned with changing relations of ownership. An important role, however, was also played in these countries by not only feudal relations but also by other precapitalist relations based not as much on ownership as on membership in some primary social community (family, ethnic, religious, etc.). Such relations were not affected by reforms. [28] It would appear that because of their very nature these relations could not be affected by reforms. As in the case of many other phenomena associated with ancient traditions they could only be abolished by a reconstruction of economic and social systems as well as of social consciousness. The preservation of this type of relations constituted still another obstacle to economic development. Still the complex of anti-feudal measures carried out by national states of

Eastern countries created a certain potential for changing socio-economic relations and for the development of productive forces.

First, limitations on feudal landownership or feudal privileges or else their full abolishment caused a reduction in non-productive forms of consumption of the traditional elite and associated strata (servants, priests). The resources that were released or rather their equivalent were reallocated to the accumulation fund through such measures as the collection by the state of a part of the former rent tax, a capitalization of land redemption payments, and a capitalistic use of the earlier savings and current income of the traditional elite itself. In its turn an increased accumulation rate provided a basis for introducing new technology and for increasing future growth rates.

Second, measures to abolish or else limit traditional forms of exploitation were accompanied by a redistribution of incomes in favour of direct producers. While preserving inequalities in ownership larger incomes of large well-to-do households led to an increase in productive investments. This created the conditions needed for shifting to capitalist methods and for adopting new production technology. In the case of small farms, on the other hand, the initial outcome of agrarian reforms was an increase in consumption without improvements in methods of production. These qualitative differences in the use of higher incomes helped transform the differentiation in ownership that had long existed in Eastern villages into a socio-economic and class differentiation. Capitalist entrepreneurs and landless agricultural workers began to emerge within what had been a common social stratum, even though direct producers possessing their own means of production continued to form the basic mass of the agrarian population. [29]

Third, measures to abolish or else limit a feudal structure led to the emergence and relatively rapid development of small-scale commodity structures and of small-scale commodity production of all types. In terms of the number of persons engaged in a small-scale commodity structure it gradually acquires a leading role in most Eastern countries. In its turn it served to widen the scope of monetary and commodity relations in small-scale production and increase the influence of markets on small-scale production.

Finally, such reforms accelerated the formation of a domestic market. On the one hand the emergence of a small-

scale commodity structure widened the scale of operations on domestic markets. At the same time the increased incomes of direct producers reducing the diversity of consumption patterns and producing a certain "averaging" of both consumptive and productive effective demand created a relatively wide basis for economic development.

One should also note another consequence of social reforms in developing countries. In the colonial period in Eastern countries the ruin of direct producers and increases in strata traditionally deprived of means of production usually did not result in open unemployment. Persons who lost their means of production accumulated in villages, thus causing a growth in hidden overpopulation. Their livelihood was provided with the help of relatives, communities, and religious organizations. But following the implementation of social reforms that traditional "social insurance" system began to disintegrate. This was attributable to economic as well as social and psychological factors. For as population increased lands with given productivities could no longer allow relatives or the community to provide the former level of support to an increasing number of dependents.

As a result the hidden agrarian overpopulation began to turn into open unemployment. As they lost means of subsistence in villages, moreover, unemployed persons began to increasingly migrate into cities. Yet the development of capital-intensive forms of production in Eastern countries presented a very limited demand for living labour. Thus at existing rates of development, far from declining, open unemployment even increased. Available estimates indicate that between 1960 and 1970 alone it increased from 36 million to 50 million persons, and that approximately 40 per cent of the entire active population of developing countries may become unemployed by the end of the century. [30]

While reproduction in a physical form may proceed under any level of unemployment, (since capital's own growth merely requires a volume of labour power corresponding to the current average organic composition of capital) the growth of unemployment beyond a certain threshold is extremely dangerous in social terms. It is for social reasons that the struggle against unemployment plays a major role in the activities of the governments of developing countries. While they do not possess sufficient resources to introduce unemployment benefits vast resources are expended in most of them to organize social work, establish stores that sell by

"fair prices" and carry out still other measures that are regarded as instruments of social stabilization. Over the long term solutions to unemployment depend on carrying out corresponding development strategies with the task of reaching full employment. Depending on local conditions it was expected that this would be achieved either through a greater participation in the international division of labour (export orientation), by holding back increases in average national labour productivity (labour-intensive forms of production), or else by increasing non-productive forms of employment. Thus unemployment has become a major social factor in developing countries that is responsible not only for the current deterioration in the situation of the greater part of the population but also for holding back rates of development and future increases in the national income.

Because of the slow pace of social reforms advances in economic and technical modernization have also been relatively slow. In most Eastern countries substantial levels of capitalist entrepreneurship did not appear before the late 1960s. A major role in increasing the rate of development of capitalist activities and of a technical reequipping of national economies was played by changes in value and price proportions. It has already been noted that following the establishment of national states uncompensated exports of value outside these countries' borders declined or even fully ceased. While a redistribution of values did continue domestically this, too, was reduced by the fact that local capitalist formations possessed a lower organic composition of capital than those of former metropolises. In reality, however, the situation proved to be much more complex.

Following the achievement of political independence national states governed by protectionist and fiscal objectives began to increase the level of customs duties, particularly on imports. [31] The highest duties were generally collected on imports of finished consumer goods, while duties collected on finished production goods were lower and those on industrial raw materials and on food were lowest of all. Under the influence of tariff protectionism and of import quotas, local production costs began to exert a more tangible influence on prices. Unlike in the colonial period, when internal prices generally conformed to the world level, after independence they began to exceed it. [32]

Increased customs duties and higher domestic prices implied a redistribution of a part of the net social product in

favour of the state. In the absence of national production activities able to compete with imports and under equal tariff duties on all imported commodities the influence of increasing domestic prices on economic development would largely depend on the manner in which additional resources were used by the state. But since in Eastern countries there did exist local production activities that competed with imports while customs duties on imported commodities were far from uniform redistributive processes in national economies were even intensified.

Indeed, increased import duties led to higher prices not only for imported goods and similar local ones but indirectly on all industrial products. Subsequent price increases for this group of commodities were attributable to a greater use of indirect taxes and increased taxation rates. And conversely, the importation of raw materials and food products which were subjected to low import duties or sometimes exempted at all held back potential price increases in agriculture and extractive industries. Because corresponding production units were widely scattered they were generally also freed from excise taxes.

This caused price parity on domestic markets to gradually change in favour of industrial products. The higher were indirect taxes on industrial products (tariffs and excise taxes) the greater was the price disparity for raw materials and industrial goods. This produced a continuously increasing redistribution of value from raw material industry to manufacturing industry and from villages to cities. Its scope was intensified by the unequal gains in labour productivity. Higher prices on industrial products made corresponding industry more profitable and this intensified the inflow of capital from other sectors. For their part additional capital investment realized in technically more advanced imported equipment increased both the level of output in such industries and their labour productivity.

A different situation developed in agriculture. The growing disparity in rates of population growth and agricultural production, the exhaustion of easily developed land and a growing emphasis on the production of specialized technical crops produced a situation in which Asian and North African countries became net importers of food following the Second World War. During the 1950s and 1960s their volume of imports continually increased. An increasing part of these imports moreover represented purchases in developed

countries. In the meantime during the postwar period the revolution in science and technology produced a rapid increase in the productivity of agricultural labour and a decline in the costs of agricultural production in Western Europe and North America. In spite of their relatively modest volume (approximately 7 per cent of the food consumption in the mid-1950s) such imports of increasingly cheap food, subject to low import duties or else none at all, produced a depressing influence on local agriculture based on traditional methods. [33] Accordingly, as their volume increased such imports increased the scale of redistributive processes between villages and cities.

The result was a further increase in disproportions in the economies of Eastern countries in the sense of an acceleration of rates of development in industry and associated sectors (energy, transportation, construction) and a further lag in their own agriculture. The latter was able to meet a declining part of the needs of capitalist formations for circulating capital. Beyond this the lagging of agriculture—the sphere in which a major part of the population was engaged—produced a very slow and uneven rate of growth in effective demand for finished products. This in turn led to a gradual exhaustion of the manufacturing industries' own growth potential.

By the mid-1960s food shortages in most Eastern countries attained a level at which they could no longer be met either by food assistance or commercial imports. [34] The resulting disequilibrium between internal demand and internal sources of supply began to alter price parity in favour of agriculture and, in particular, food crops. This in turn produced a reallocation of capital in the economy and more specifically a greater retention of accumulations in agriculture itself as well as a partial redistribution to agriculture of capital from other sectors.

In seeking to reduce food shortages and the corresponding danger of social and political upheavals the state activities in that sphere acquired considerable scope. They may be largely reduced to three types of measures: a) the creation of missing reproduction links (irrigation, energy, seed improvements, credit systems, etc.); b) subsidizing the marketing of productive goods for agriculture; and c) measures designed to maintain purchasing prices of agricultural products, particularly for food, at levels that exceed world prices.

As a result of this entire set of factors, a shift began to occur in the mid-1960s that was given the name of "green revolution" as the village elite began to turn increasingly to capitalist methods of farming with the help of new technology. This produced tangible increases in rates of growth of agricultural production.

In short there were substantial shifts in value and price proportions in Eastern countries over a relatively short period of time—20-30 years. One may distinguish three stages within that chain of events that were associated with different types of changes.

During an initial very brief stage internal market prices moved away from world prices and this reduced the existing redistribution of values in favour of the world capitalist system. Because neither the state nor local capitalist structures were able to appropriate these values the corresponding reduction in the redistribution of values to other countries favoured direct producers, particularly in agriculture.

A second stage begins when growth rates become more rapid. This refers to a period lasting from the mid-1950s to the mid-1960s. Increased prices for industrial products, on the one hand, and economies in wages made possible by cheaper food, on the other, encouraged the development of industrial entrepreneurship (based on both private and state capital) while reduced food prices for many millions of members of the urban and rural population helped maintain social stability. While this favoured capitalistic forms of industrial development this placed relatively rigorous constraints on industrial growth itself by limiting development possibilities in other sectors as well as overall consumption.

Still another stage began in the second half of the 1960s when redistributive processes began to favour not only capitalist industrial entrepreneurship but nominally all types of entrepreneurial activities. In fact they only contributed to capitalist entrepreneurial activities. While direct agricultural producers and other small-scale producers gained from higher prices for their own product they lost at least as much as consumers. The effect on persons selling their labour power was even more pronounced. Accordingly, the value and price proportions that have now developed in Eastern countries are highly ambivalent. For while they encourage the development of capitalistic relations and increases in the scale of production they also reduce the absorptive capacity

of internal markets since a more rapid development of capitalism is taking place at the expense of the widest layers of the population.

This analysis of changes in value and price proportions would be incomplete unless one also considers new tendencies in the value of labour power and of capital. A widely held view has developed in economic literature that developing countries possess very cheap labour power and very expensive capital. While such a view was fully justified for the colonial period the situation has changed after independence.

The low cost of labour power in the colonial period was explained by four basic causes. One is the sale of food below cost as noted in Chapter II. Since food constitutes a major component of the value of labour power in developing countries its low cost produced a relative decline in the value and price of labour power. Another is the weak development of industry and the concentration of the great majority of wage workers in non-mechanized sectors (plantations, construction activities, services). This resulted in a prevalence of unskilled labour. Another factor that contributed to the low cost of labour power was the lack of preliminary expenditures on its training. Third, low rates of economic development produced unemployment and a further decline in the price of labour power. Finally, an additional deviation of the price of labour power below its value to a level corresponding to minimum physical means of existence resulted from traditional forms of hiring, limitations on the workers' personal freedom, and the absence of legislative constraints on exploitation.

It has already been noted that food prices began to grow more rapidly in Eastern countries after the mid-1960s. This produced a relative increase in the value of all categories of labour power. It would appear that in view of the fuel and energy crisis, the full utilization of potentially cultivated lands in most Eastern countries and of the need for a transition to intensive methods of production, this tendency towards increased food prices and hence labour power will continue for a long time.

Another factor appears to be equally important. This is the emergence of different tendencies in price and value changes for individual categories of wage workers. The greater part of the labour force in developing countries consists of persons who have been displaced from agriculture and

crafts or else persons who have traditionally not possessed means of production, have neither skills nor special training, and are most often illiterate. It is precisely this category of workers that is subjected to enormous levels of unemployment that hold back higher prices and values for unskilled and poorly skilled labour power. This is especially marked in the case of agricultural labour.

But the lower is the labour force's initial level of literacy and skills the higher will be expenditures on its training. As a result the disparity between the value of unskilled labour and skilled labour power becomes higher. For skilled workers, moreover, there is also a greater correspondence between the price and the value of labour power. Relatively high rates of development in new industries produce a constantly increasing demand for skilled labour power. Since in most Eastern countries local training systems are not able to meet that demand there is a constant shortage of skilled cadres. Beyond this the working class's active participation in national liberation movements has forced the governments of most developing countries to introduce worker legislation that limits the exploitation of the workers. This reduces the danger of social and political upheavals. Finally, a relatively high level of organization permits workers to obtain concessions from employers. This is why workers in capitalistically organized branches of the economy succeed in preventing declines in their standard of living and occasionally in increasing it. Yet, workers of this type represent at most a fifth of all wage workers in any Eastern country. But this is also the category of workers that entrepreneurs must accommodate in determining unit capital expenditures and the profitability of capital investments.

In the colonial period the high cost of capital appears to have been associated with the following factors. Above all, the creation of each new enterprise in Eastern countries required large expenditures for transportation equipment from metropolises and for the construction of passive components of fixed capital (access roads, water supply, waste disposal systems, etc.). This often caused the capital-output ratio to be high. Beyond this embodied labour could be replaced by living labour in many branches of mining and light industries. Given the low cost of labour power, which could be employed instead of imported machines, capital did indeed seem to be very expensive. Finally, the low state of development of the credit and banking system reflected the colo-

nies' low level of general economic development and created a permanent shortage of capital and its high price.

Which of these factors have changed after independence? It is evident that expenditures on passive components of capital can be reduced only following an adequate development of basic and social infrastructures and such a saturation of the economy with means of production that a leading role is played by the modernization of existing productive facilities rather than the construction of new ones. For most newly liberated countries such a situation will presumably arrive in the distant future. It is only in a limited number of industrially most developed Eastern countries as Singapore, Turkey, and India that the modernization of established facilities is beginning to play an appreciable role.

The increase in the value of labour power that has been noted has already begun to reduce the ratio of the price of labour power to that of capital. As a result it is becoming unprofitable in a number of branches of industry to replace embodied labour with living labour. A still greater role, however, is played by the declining cost of capital itself. First, increasing import tariffs, which automatically increase both domestic prices and profits, have changed the values of such macroparameters as capital-output and capital-profit ratios. [35] Secondly, national states have created "development banks" in the majority of newly independent countries, whose role is to encourage the development of key branches of the economy. They provide long-term credits at interest rates that are considerably lower than commercial rates. [36] Third, a large inflow of foreign economic aid into developing countries that is offered on favourable terms (i.e. at less than commercial rates) further reduces the shortage of capital and reduces its price.

Higher prices and value of labour power, particularly of skilled one, and lower prices for capital accelerated the process of technical reequipment of Eastern countries' economies. This appears to have been a major factor underlying increasing rates of growth in labour productivity following the achievement of political independence. Yet, the actual effect of the relative decline in the price of capital was exceptionally ambivalent. In particular, it encouraged a level of capital intensity that did not always accord with the long-term needs of developing countries. Second, since the fall in the value of capital reflected a redistribution of the net

product of lower structures, its acceleration of a transition of private and state capitalist enterprises to an industrial basis also held back the social and technical progress of lower structures. It operated as one of the factors, in short, that preserved the economy's dual structure.

It is extremely difficult to reduce the different types and directions of internal and external changes in the development of Eastern countries to a single denominator. Still it is appropriate to consider two manifestations of their interactions—namely, the causes and possibilities of the development of capitalism in that group of countries.

In the socio-economically more developed countries (such as India, the Philippines, Lebanon, Singapore) fairly powerful local capitalistic formations and a corresponding national bourgeoisie had already developed by the end of the colonial period. This was the class that came to power on the crest of the national liberation wave (either independently or by leading a coalition that included local precapitalist exploiting classes). Subsequently, by taking advantage of its acquired position and also relying on the powerful support of the state this bourgeoisie assured its countries' development in terms of a capitalist way. In such cases the "choice" of this way derived from internal factors, while external factors served to stabilize the resulting growth and accelerate it.

The situation was different in countries possessing a lower level of development of socio-economic relations. There precapitalist relations prevailed immediately before independence and the national bourgeoisie was insufficiently strong to automatically provide for the development of capitalism. In that group of countries external factors therefore appear to have played a more important role in these countries' "choice" of a capitalist approach to development.

While there the national bourgeoisie initially held a subordinate position within the ruling bloc, its partners were not simply traditional exploiting classes. Generally a leading role was played by a westernized layer whose education, outlook and life style made it impossible for it to conceive development in terms of a non-capitalist way. In addition, at a time when world socialism was gaining in strength still another factor that pushed it towards the capitalist way of development was its fear of possible social upheavals that would threaten its power and privileges. That is why once in power it began to actively encourage a capitalist trans-

formation of society independently of its own social origin. This is the basis for subsequent intensification of internal factors contributing to the development of local capitalism.

It would appear that such an approach to the development of capitalism is largely characteristic of former dependent countries. It is vividly illustrated by the experience of Kemalist Turkey, Kuomintang China, and Iran's and Thailand's monarchies. While this type of bourgeois evolution is less characteristic of former colonies in some of them, too, capitalism was encouraged by forces within which the position of the national bourgeoisie was subordinate. An example is provided by Pakistan in the 1950s and 1960s.

Generally the combined interaction of both internal and external factors in Eastern countries following their achievement of political independence produced conditions for effecting an industrial transformation both in a social and a technical aspect that were more favourable than in the colonial period. This also explained their increased economic growth. Yet Eastern countries also possess a fundamentally different potential for technical progress and a reconstruction of socio-economic relations than did Western European states and North America at corresponding levels of development. Let us note only the increased cost of all elements of capital in its material, embodied form (because of technical progress, the energy and raw materials crises, increasing food shortages); the relative depletion of easily accessible natural resources, particularly of land; accelerating population growth and growing army of labour; and finally, limitations on access to the world market because of the role of international monopolies and the protectionist activities of developed capitalist states.

In such a situation the social reconstruction and technical reequipment of Eastern countries cannot proceed as consistently and comprehensively as had been witnessed in the West. In Eastern countries capitalist development and a transition to the use of modern means of production in one sector of the economy reproduce traditional modes of production and a pauperization of the greater part of the population in others. Such a preservation of dual economies explains the emergence of the special type of capitalism that is developing in Eastern countries as well as novel methods for regulating the economies and social processes.

The Evolution of Dependence

Developing countries are usually regarded in radicalist economic literature as a dependent part of the world capitalist economy. Although all the authors of such literature recognize the phenomenon of dependence, there nonetheless exist significant differences of opinion concerning the content of this concept and the directions taken by the evolution of dependence. These differences are explained in many ways by the fact that dependence is analyzed as a single, undifferentiated whole; at best, economic dependence is singled out. Meanwhile, experience shows that dependence can be adequately subdivided into economic, political and social categories. It is clear that these three categories are interrelated not directly but indirectly. Each of them retains some degree of autonomy in its evolution and this leads to a change in the correlation between them.

Although the changes which came about as a result of political independence are examined in this chapter, it is nevertheless expedient to begin an analysis of the evolution of dependence with a historical digression, inasmuch as the past still exerts great influence on the current situation in developing countries.

Before the era of industrial capitalism began, economic dependence came about as an immediate consequence of the political dependence of the colonial countries. It is well known that at this time non-economic compulsion was the main means of exploiting the colonies. The extortion of surplus produce by these means, it seems, did not yet mean that the enslaved countries were economically dependent. Firstly, such methods of exploitation did not undermine the exclusiveness of national reproduction cycles either in the colonies or in the metropolises. Secondly, changes had not yet come about at that time in the existing mode of production, and, consequently, in the nature of reproduction. At the same time, non-economic compulsion was laying the foundations for a gradual growth of economic dependence. The extortion in the colonies of surplus product, and in some cases, of necessary product, worsened the potentialities of reproduction. Approaching in its proportions simple reproduction, this determined the stagnation of the forces of production and, in the final analysis, the invariability of the mode of production. On the contrary the inflow of surplus produce extracted from the colonies

into the metropolises increased the latter's stockpiles and speeded up the development of the forces of production, and in this way the victory of the capitalist mode of production.

If we imagine the possibility of things having developed in such a way that colonial dependence was liquidated as early as at the time when the colonies were being exploited by trading capital, then it seems this would have had no influence over either the nature of the socio-economic structure or of reproduction either in the colonies or in the metropolises. But it is clear that the forms of reproduction and its proportions were subject to material change.

With the subordination of trading capital to industrial capital in the metropolises, a change occurred in the way the colonies were exploited: non-economic compulsion was to an ever greater extent supplemented with economic methods of exploitation. It should, however, be noted that non-economic methods of exploitation continued to be employed until the end of the colonial period. But the relationship of these two forms of exploitation could differ significantly depending on the level of socio-economic development of some colony or other, on its deposits of raw materials important for a metropolis, on the level of infrastructure development, etc. Towards the end of the colonial period economic methods of exploitation already predominated in the more developed colonies (Ceylon, Malaysia), and non-economic in the least developed (South Yemen).

The very possibility of new methods of exploitation arising depended on certain changes in the economic structure both in the metropolises and in the colonies. In the metropolises these changes consisted of extremely rapid rates of development in manufacturing industry in comparison with raw materials branches, a quicker development of the former than of the domestic market, an increase in the proportion of skilled labour in the general workforce, and finally, a rise in the share of foreign profits in the general accumulation fund. For the colonies the progressive destruction of the lowest forms of local industry was characteristic under the influence of competition from the factory production of the metropolises and the discriminatory measures of the colonial machine, as was an ever increasing concentration of the labour force in raw materials branches, an increase in production of vegetable and mineral products for export, and an increase in the amount of surplus product, which was exported.

In this way a peculiar mutual complementarity grew between both parts of the "metropolis-colony" system in the process of transforming the economic structure, and a single reproduction cycle was formed in them. Taken outside this dialectically contradictory system, neither the metropolises nor the colonies could achieve capacity reproduction. An efficient realization of circulating capital could not come about in the metropolises without the colonies, neither could the full realization of finished output, and, finally, the maintenance of an uninterrupted self-expansion of capital because of the non-receipt of colonial profits. Without the metropolises the colonies could not realize the necessary product of the immediate producer in the precapitalist structures, or fixed capital in the capitalist structure; complications were also to arise in the consumption phase.

The forming of the economic dependence of the colonial countries in the era of industrial capitalism manifested itself in the creation of a single reproduction cycle within the "metropolis-colony" system. [37] From the reproduction point of view this meant the beginning of interdependence for both parts of the system, and from the economic, an intensification of the exploitation of the colonies because their political subjugation, the precapitalist nature of production, its decentralization and low productive capacity all determined a redistribution of the values in favour of the metropolises. As a result of participation in this single reproduction cycle, the colonies' share in it, as we have already noted, approached simple reproduction. [38]

If economic subjugation resulted from political subjugation in the period of exploitation by trading capital, then in the period of industrial capitalism economic dependence is acquiring distinctive autonomy. Industrial capital, which differed from trading capital by its immeasurably greater concentration and centralization, could by pure economic methods foist on the precapitalist countries conditions of division of labour and ratios of exchange to its own liking. Its economic might was also supplemented by the growing socio-economic breach between the center and the periphery. This explained the appearance at the end of the nineteenth century of dependent countries—countries which were politically free, but which were economically subordinate to the developed capitalist countries.

The changeover to economic methods of exploitation and the creation of economic dependence stimulated the forma-

tion of yet another form of dependence—social dependence. Exploitation by means of trading capital was not able to change the economic basis of the conquered countries. The situation changed with the beginning of the era of industrial capitalism.

Operating in a precapitalist environment, the industrial capital of the metropolis could independently neither set going the mass production of raw materials, nor create stable channels through which to sell its finished products. For this reason the foreign entrepreneurs were compelled to cooperate with the local usurious and merchant capital in the vast majority of Eastern countries, particularly in the larger of them. This very cooperation and comprador activity also stimulated the appearance of the first shoots of capitalism in the colonial countries.[39] In conditions of the complete rule of capitalism at that time in the most developed regions of the world, the appearance of centres of a new structure in the colonial world signified the inevitability of the periphery following the centre in the field of socio-economic development.

The creation of social dependence in its turn caused certain changes in the relationship between both parts of the "metropolis-colony" system. Although capitalism developed relatively slowly in the colonies, a national capitalist structure did, however, form in the majority of Eastern countries towards the end of the colonial period. This structure was notable for a higher level of organization of production and labour, and was better supplied with technical equipment than the local precapitalist production activities. The purchase of raw materials and labour at prices below cost and the sale of products at cost price, as we have already noted, ensured it a higher level of surplus value than in the metropolis. But at the same time, capitalist entrepreneurship in the East were less supplied with technical equipment than in the metropolis. Besides, being part of the "metropolis-colony" system, these undertakings took part in the formation of the average profit rate, as a result of which a redistribution of surplus value came about which favoured the capitalists in the metropolis.

This brought about an extremely contradictory position of national capitalism in the colonial economy. On the one hand, undermining the potentialities of normal reproduction in the lowest structures, or even directly destroying them, national capitalist entrepreneurship were at the same

time unable to absorb the product of their collapse as it was the case in Western Europe and North America in the eighteenth and nineteenth centuries. Therefore, it was not the liquidation of the traditional structures that was the main direction of development, but the union of the immediate producer with the means of production under the worst conditions. At the same time foreign competition was conducive to an acceleration of the concentration and centralization of local capital and an improvement in the supply of technical equipment to its enterprises than would have been possible in conditions of independent development. As a result the possibilities of creating a new structure in the precapitalist systems were severely limited, whilst the local capitalist structure on its basic parameters was falling in with international standards to an ever increasing degree. It was these very circumstances which lay behind the conception of the dichotomy of the economic and social structure of the Eastern countries as early as in the colonial period (the co-existence of the capitalist and traditional forms). On the other hand, structural uniformity (although differences in stages continue to exist) gave national capital the opportunity to make use of the advantages resulting from the international division of labour. For this reason the interdependence within the "metropolis-colony" system, while remaining unfavourable for the colony as a whole, began to have certain benefits for local capitalism. Thanks to the staged development of local capitalism and its transfer to the factory stage, these benefits grew. [40]

With the downfall of the colonial system huge changes are coming about in the position of the former colonially dependent periphery. Firstly, political dependence is being liquidated. This process has inevitably been fairly long, but nevertheless the vast majority of Eastern countries achieved genuine political sovereignty towards the beginning of the 1980s. This meant the collapse of the "triad" of dependence, and the final autonomization of economic and social dependence.

Secondly, social dependence underwent material changes. The establishment of developed socialism as a higher socio-economic structure and the formation of the socialist community opened the way to those developing countries where the corresponding internal conditions existed to progress from precapitalism to socialism, bypassing capitalism.

In other words, the inevitable social predetermination of moving on to capitalism disappeared for a relatively large group of liberated countries.

Apart from that, there was a qualitative reconstruction of the parameters of social dependence. Although capitalism was secondary in the East, a derivative of Western capitalism, it did not adapt simply to a new socio-economic environment: in the countries of the East it became interwoven with the production relations of the preceding formations, local traditions and customs, and in this way acquired new characteristics and forms. Therefore, it is not simply repeating the path taken by Western capitalism—from free competition to state-monopoly capital. Here, differences which notably distinguish it from its Western analogue manifested themselves in the earliest stages. In such conditions the attainment of the state-monopoly stage is not inevitable even for those countries which are following a capitalist path of development.

Thirdly, the gaining of political sovereignty removes the possibility of non-economic exploitation of the former colonies. Since economic dependence was partly (and in the lesser developed countries to a decisive degree) based on non-economic compulsion and methods of exploitation, the liquidation of the latter facilitated a weakening of this dependence. It was precisely this which lay at the basis of the progression of developing countries to proportions of expanded reproduction and increased rates of economic development after independence had been achieved.

However, an acknowledgment of the weakening of economic dependence is not sufficient to comprehend the role of the developing countries in the world today. The reconstruction of political relations with the achievement of independence, on the one hand, and the scientific and technological revolution, on the other, which is unevenly affecting all sections of social life, make for continual changes in the forms and level, etc. of dependence of developing countries.

As we have already noted, the "metropolis-colony" system collapses with political liberation and the economic dependence of the former colony on the metropolis is replaced by economic dependence on the developed capitalist countries as a whole, i.e. collective neocolonialism replaces "individual colonialism". Apparently, the progression to dependence on the world capitalist economy unequally

influenced the various sides of the developing countries' external economic links.

During the 1950s through to the beginning of the 1970s the share of developing countries in world trade steadily declined, and their share of exports declined more quickly than of imports.[41] Moreover, the balance of trade, which was characteristically favourable for the colonies, became unfavourable, and the level of imports covered by exports declined steadily during the 1970s.[42] All these changes permit us to make two main conclusions. Firstly, the dependence of the centres of world capitalism on the markets in developing countries declined more slowly than their interest in raw materials; in this respect the very demand for raw materials was shifted to a relatively small group of products of a universal or unique character. This phenomenon is well known and we therefore mention only that it is caused by the following reasons: the modernization and diversification of agriculture in the developed capitalist countries, which allowed these countries to cut back on imports of agricultural raw materials; the large-scale introduction of new processes and synthetic substitutes, which also reduced the demand for many agricultural and mineral raw materials; and the growing division of social labour between the developed capitalist countries, which causes a corresponding reduction of links with the developing countries.

Secondly, a growth was observed of the dependence of reproduction in the developing countries on the centres of world capitalism. As we have already said, conditions are created with the liquidation of non-economic methods of exploitation for an unimpeded realization of traditional reproduction. However, the "demographic explosion" required a progression to expanded reproduction simply to maintain the existing living standards of the population. Developing countries were in no position independently to progress to new proportions of reproduction because of unfavourable socio-economic and technico-economic factors. Both a supplement of the low domestic rate of accumulation and the creation of better conditions of the productive realization of capital were essential. All this required the attraction of outside resources, both financial and material. The very need to progress to expanded reproduction caused an increase in imports, which was partly facilitated by inter-state credits.

The acceleration of the development of capitalism in the countries of the East in the 1960s and 1970s brought about further changes in relations with the world capitalist economy. The increase in the share of the capitalist sector, which possesses means of production and methods of organization and management, etc. which are structurally uniform with the capitalist countries, expanded that part of the economy which could potentially or actually make use of the advantages of the international division of labour.

The cyclical and structural crises of the 1970s caused more changes in the interrelations between the countries of the East and the developed capitalist countries. Since many publications have been devoted to these questions, it is expedient here to dwell on one moment—the deepening of the differentiation of developing countries during the crises.

For the vast majority of Eastern countries the crises resulted in a curtailment of the demand for raw materials goods and in greater instability of prices for them; and a worsening of the conditions of access of the products of their manufacturing industry to the markets of the developed capitalist countries and an increase in the cost of credits in connection with the relative cutback in the scales of inter-state aid and so on, all told on the economic position of developing countries. Their dependence on financial support from the developed capitalist countries continued, and in some cases even became more acute. Moreover, since the prospects of further development on a base of extensive methods were basically exhausted in many countries (as a result of the "demographic explosion", complete mastery of easily reached natural resources, etc.), a progression to intensive methods of production is imperative. The possibilities of such a progression depend on the import of modern technology and the attraction of skilled workers, organizational experience, etc. As the developing countries obtain a large part of these material and non-materail production factors in the centres of world capitalism, the latter's control over the progression from extensive to intensive methods of expanded reproduction determines the transformation of the dependence of the Eastern countries into a new form, which has been called technological dependence in economic literature. As a result of all this, possibilities still exist for these countries

to be exploited by the developed capitalist countries, although the level and scale of this exploitation are being curtailed as independent development goes on.

At the other end of the scale, there is a small group of countries possessing unique or universal forms of raw materials, above all, oil. The indispensability of oil as a source of energy and chemical materials allowed the OPEC countries sharply to increase its price (roughly fivefold in real terms) and to secure a fundamental change in the system of relations with the international oil monopolies. The possibility, on the one hand, of appropriating a differential and in some cases monopoly rent, which mainly materialized in the labour of the workers of the developed capitalist countries and the inability, on the other, of the centres of world capitalism to secure in the contemporary situation a return to the old forms and level of exploitation by violent methods led to the oil-exporting countries' balance of accounts with the developed capitalist countries going in their favour. On average they received around 3 per cent of the GDP of the developed capitalist countries in the late 1970s. [43] As a result, economic relations with the world capitalist economy became beneficial for them.

In other words, exploitation by the developed capitalist countries formally came to an end for these countries, which found themselves in an exceptional position. (What is more, the redistribution of part of the net product of the developed capitalist countries in favour of the oil-exporting countries would seem to evidence the dependence which has come about of the developed capitalist countries on this group of developing countries). However, if we take into account the great socio-economic backwardness of the vast majority of the oil-exporting countries, their inability to carry out expanded reproduction on a base of domestic material and non-material factors, the dependence of their ruling classes on external support, and, finally, the possibility of profitably using their revenue only within the framework of the world capitalist economy, then it turns out that they are still dependent on the centres of world capitalism.

It does not yet appear to be possible quantitatively to measure the relationship of these two forms of dependence. It can evidently differ materially in each particular case, which is determined by the direction of socio-economic pol-

icy, the methods of development of the economy, the nature of relations with the developed capitalist countries, etc.

Thus, with the achievement of political independence, quite material changes have occurred in the interrelations of developing countrise with the developed capitalist states. Although the vast majority of these countries remain a dependent periphery of the world capitalist economy, the level of this dependence has in a number of cases abated, and its forms are undergoing changes. At the same time, on analysis of the current situation the term "dependent periphery" would, it seems, already be incorrectly applied to the whole community of developing countries. Firstly, the formation of the socialist community and the appearance of a more advanced socio-economic structure did away with the inevitability of all liberated countries developing along capitalist lines. This is clearly shown by the experience of the countries of socialist orientation. Secondly, the possibility has appeared for the first time even for countries developing along capitalist lines to extract for themselves some benefit from mutual relations with imperialism. It is clear that the actual level of this benefit will be determined by many internal and external factors, but this very phenomenon fortifies the crisis phenomena in the world capitalist economy.

CHAPTER IV

Development Strategies of Eastern Countries

In the case of Western Europe and North America the direction, forms and methods of development at the time of their industrial revolution and under free competition were determined by the operation of spontaneous laws of capitalism. The states of capitalism's "first wave" find it unnecessary to limit this spontaneity, quite opposite, they actually contributed to the fullest expression of market forces and regularities. Accordingly, one can refer to a development strategy only in the sense of retrospective identification of the most general tendencies that forced their way through confrontations with elemental market forces.

That situation is different in the case of today's developing countries. Because of the substantial role of the state in guiding society's economic activities and of a nearly universal shift to planning as a method for managing economies and bringing about their development it is possible to refer to a development strategy as a new phenomenon. Within that group of countries it may be viewed as a selection by a specific class of a conscious objective. Such strategy also includes the choice of methods needed to achieve the objectives that are defined.

In Eastern countries, however, the state operates in the context of a mixed economy rather than in that of a uniform socio-economic system.

It is a mixed economy in two senses, namely as a multi-structural system, and as a combination of state and private economic sectors. Such an economy, moreover, operates within the framework of the world capitalist economy. As a result the activities of national states become highly contradictory. For, on the one hand, they seek to limit the spontaneous laws of a free market with a view to stimulating the development of local capitalism and in order to avoid a massive destruction of lower precapitalist structures

as well as to provide for a priority development of key industries. On the other hand, both objectively (by developing capitalism, including private capitalism) and subjectively (in seeking to increase their influence on pre-capitalist structures) they contribute to a further extension of elemental capitalist laws to all strata of their population and to all their territories.

As the development of capitalism proceeds and the capitalist sector in the economy expands and modernizes the character of the state's economic and social activities becomes increasingly contradictory. For, on the one hand, the scope and methods of its activities often impede the development of higher groups of local capitalist entrepreneurs. This often leads the national bourgeoisie to join foreign monopolies in promoting forms of restructuring state activities that would serve their own interests. But such a restructuring of economic policy may also greatly harm the traditional sector. Accordingly, the latter is interested not merely in preserving but in actually widening the state's intervention into the economy. This produces continual changes in a strategy stemming from continuous compromises between modern capitalist sectors and traditional sectors.

An Eastern Model of Industrial Transformation

The aim of this section is to show the most general fundamental principles bearing on the industrial transformation of Eastern countries under the influence of both internal and external factors of development. It is clear that the actual effectiveness of any development strategy will depend on the extent to which it takes these objective governing principles into consideration.

If they were to follow the relevant experience of Western European capitalist countries and North America such industrial transformations of developing countries and their technical reequipment would have to pass through the following stages. In terms of its socio-economic dimensions the development would begin with primitive accumulation and effect a transition to manufactory, i.e. pre-machinery capitalism. Subsequently, such form of capitalism would provide a basis for an industrial revolution.

But modern conditions have vastly altered the sequences of these processes and their mutual interactions. Not only the private form of capitalism but capitalism itself has ceas-

ed to be the exclusive basis for industrial transformations. Indeed, in the case of socialist Eastern countries, both social transformations and technical reequipment of their economies are taking place on the basis of a social ownership of means of production. This is why the very term "industrial revolution" cannot be in its classical sense applied to that group of countries and a new definition of corresponding processes is required.

But equally complex processes are taking place in states developing in terms of a capitalist approach. Their achievement of political independence and their autonomy in relation to the world capitalist economy as well as the widening of the economic and social functions of national states have produced a massive growth of capitalism "from below" and a wide emergence of a variety of forms of early capitalism. Beyond htis, both internal factors and support from the world capitalist economy have produced a parallel development of modern industrial entrepreneurship. In fact local monopolies have begun to appear in the largest and most developed Eastern countries. Even more important, from the point of view of industrial transformations, is the role played by the emergence of state capitalism in practically all such countries following capitalist way of development. It is through state capitalism that the largest modern enterprises have developed. In short, one finds in Eastern countries a parallel emergence and interaction of the most varied capitalist forms. It would appear that so long as a wide precapitalist periphery continues to exist within such countries that is being dismantled and disorganized by capitalism's development possibilities will also remain for a simultaneous development and co-existence of different forms of capitalist entrepreneurship that correspond to a variety of stages.

In the technical aspect the classical course of development centered on a shift of light industry to the use of machines, the subsequent establishment of heavy industry, the mechanization of transportation and communications, the introduction of machines into agriculture, and finally the use of machines in the sphere of circulation and of services. But it has been noted that in Eastern countries the sequence of stages of the technical reequipping of the economy was violated already in the colonial period. And in modern times their duration and contents, too, have been conclusively altered.

Above all, the stage by stage development of branches of light and heavy industry has vanished. This is attributable to an entire set of technological, economic, and social factors. Since the early decades of the 20th century light industry has shifted increasingly to a reliance on non-agricultural raw materials (artificial and synthetic fibers, leather substitutes, synthetic rubber). Moreover, even in traditional branches of light industry (leather tanning, oil extraction), auxiliary materials produced by heavy industry have begun to be used that either help increase production or improve its quality. Light industry has thus come to depend on heavy industry for objects of labour as well as for instruments of labour. In addition demand for products of heavy industry has also increased as a result of urbanization processes, the modernization of armed forces, etc. Accordingly developing countries feel a need to develop light and heavy industry simultaneously.

The growing size of production units, moreover, their growing technical level, an increasing participation in the international division of labour, and the influence of the "demonstration effect" have also required a priority development of both basic infrastructure and social infrastructure. In addition in developing their industries Eastern countries found it necessary to engage in wide-ranging construction activities in transportation, communications, and power engineering, to create modern municipal economies, and develop personnel training systems and health services. Simultaneously changes in the personal consumption structure of the population's upper layers and the increasing role played by durable consumer goods have led to the introduction of various appliances and equipment for household use and the sphere of services. While in the West the introduction of technical facilities into infrastructures and the services represented the last stage in the technical reequipment of their economies in Eastern countries this is proceeding simultaneously with industrial development.

By the time of independence the agriculture of most Eastern countries had become the most backward sector of their economies. While it contained the largest part of employed persons it could not meet the population's needs for food and those of industry for many types of raw materials. This is why after the Second World War Eastern countries became net importers of food and of certain

types of raw material. This posed the task of extending agricultural production. Yet unused land reserves had nearly vanished in most Eastern countries and this called for a transition to intensive methods of agricultural development. In the case of tropical and subtropical conditions, however, this requires irrigation facilities, electrification, the use of mineral fertilizers and insecticides, new varieties of highly productive seeds, and multiple cropping. While a transition to intensive methods of production can initially be effected through greater input of living labour subsequent increases in peak loads and compressions of field work schedules require a transition to the use of machinery.

Thus unlike in the case of Western Europe's and North America's capitalist states where a socio-economic transformation and a technical reequipment of their economies occurred through a series of distinct stages and lasted nearly two centuries, in Eastern countries reconstruction of socio-economic relations and introduction of machinery into individual branches had to be carried out relatively simultaneously and within a relatively short period of time. They were "compressed", as it were, into a single historical period. If for any of a number of reasons developing countries are unable to simultaneously modernize all branches of their economies there will be a sharp deterioration in the system of balanced economic growth. This is reflected either in substantial declines in growth rates or in a greater dependence on the world market and the world capitalist economy.

The "compressed" character of development is attributable to both the nature of the equipment that is applied and the overall state of economies in developing countries. It has already been noted that imported technology is effective only in enterprises of optimal size. But such enterprises can operate normally only if there is a corresponding development of basic and social infrastructures, a stable supply of raw materials, and effective marketing. In short, the use of modern technology presupposes a high level of integration and a relative proportionality of the economy. It is evident that as former agrarian and raw material appendages of the world capitalist economy developing countries could not possess even a relative measure of proportionality. Nor could this generally be provided through external economic relations: in view of the declining share of non-petroleum-exporting developing countries in world commodities exchange and their chronic balance of trade

deficits they were unable to attract missing resources through imports. All this served to intensify their striving to achieve a relatively simultaneous transformation of their entire economies.

In addition while developing countries addressed themselves to the task of a more rapid creation of industrial productive forces throughout their entire economies an intensive further development of a new type of productive forces is taking place in developed capitalist countries that result from the revolution in science and technology. These new productive forces are qualitatively distinct from the industrial ones that preceded them. While the latter are based on a mechanical processing of natural materials the new ones are based on manipulations of matter's atomic and molecular structure. To some extent their emergence represents a negation of the whole preceding stage of a machine-oriented approach to the development of technology.

One frequently hears the view that the revolution in science and technology opens additional possibilities to lagging countries for accelerating their economic development, for it allows them to bypass a number of intermediate stages in developing industrial productive forces. Theoretically that proposition is correct. For by permitting a complex processing of raw materials the revolution in science and technology reduces the consumption of some materials as well as costs of transportation, and also introduces new, "non-machine" processes. In fact, however, machine industries and modern basic and social infrastructures are necessary foundations of technico-scientific transformations. Equally important is the fact that technologically advanced means of production require a highly skilled labour force and a level of training that can only be provided through a development of machine industries.

Because the revolution in science and technology is itself the outcome of a certain level of development of industrial productive forces developing countries cannot bypass that stage. It is also true, of course, that they can take advantage of the high level of development of world science and technology and the achievements of other countries to facilitate their development. It is unavoidable that under capitalist conditions their transfer to developing countries will assume antagonistic forms. The superimposing of the revolution in science and technology on

industrial transformations itself thus renders the problems that they confront even more complex.

But the "compressed" character of the technical reequipment of their economies and of socio-economic transformations, and the further superimposing of the revolution in science and technology exert an enormous influence on the entire course of economic development in Eastern countries. Instead of a stage-by-stage industrial reconstruction of individual branches of their economies there should be a process of complex and comprehensive economic growth in which all major branches must be modernized nearly simultaneously. It is clear that any conscious strategy of economic development must take these fundamental principles into account. It should provide for a complex and relatively simultaneous flow of all economic and social processes with due account of available domestic resources and of the nature and scope of external linkages.

A General Approach to Problems of Development

Since an industrial transformation is a combination of socio-economic and technico-economic changes any development strategy must consider transformations in the social relations of production as well as changes in the system of productive forces. But in fact an analysis of the strategies that are employed by Eastern countries shows that their socio-economic component is extremely unclear. Nearly all contain an assortment of similar propositions concerning the need to overcome social inequality, poverty, unemployment, increase the standard of living of the greater part of the population, etc. But a specification of a desired direction of socio-economic development is generally missing. This appears to be partly due to the ruling classes' political considerations and partly to a belief that there exist certain preset properties or automatism in socio-economic development. This makes it necessary to evaluate the actual course of a country's socio-economic development not in terms of proclaimed strategies, but in terms of their practical implementation.

The technico-economic aspect of development strategies is elaborated in much greater detail. In particular, one notes ing countries will assume antagonistic forms. The super-

tical independence the overwhelming majority of Eastern countries either officially declared that industrialization itself constituted their basic approach to overall economic development or else simply initiated industrial development.[1] Since these countries differed considerably in terms of their level of development, the character of state power, their ruling class (classes), size, the availability of natural resources, etc. that uniformity in their approach must be explained by some common factors. These appear to have been the following.

Eastern countries found themselves forcibly engaged in world-wide processes at a relatively early stage of their development. This helped make their societies or ruling classes aware of the scope of their lagging behind advanced states and of corresponding causes. It was the view of both leaders of national liberation movements and of research scientists in developing countries that their population's poverty and the unequal relations with imperialism were produced by the destruction of their traditional industrial production and by the predominantly agrarian character of their economies. At the same time the power and wealth of imperialist states were largely attributed to the industrial character of their economies. This led to the conclusion that to overcome poverty and economic backwardness required rapid rates of industrial development and that industry should become the basic source of national income.[2]

The Soviet Union's industrialization tended to reinforce that approach. The rapid transformation of what had been a backward agrarian country into a leading industrial power has exerted a major influence on the intelligentsia and other social strata of developing countries. Since economic and social conditions in Russia on the eve of the October Revolution and in Eastern countries before the collapse of the colonial rule were largely similar democratic forces within national liberation movements viewed the Soviet experience as a key to understanding and resolving the problems that confronted lagging countries.

In countries that had experienced a prolonged period of colonial oppression such an approach represented an objective reaction to earlier blocking from the outside. The slogan of industrialization and industrial development became extremely popular among all classes and social strata of newly liberated countries. Accordingly, none of the gov-

ernments that came to power on the wave of national liberation movements could avoid proposing that slogan if they wished to preserve political support.

But there also existed substantial economic reasons for attaching priority to industrial development. Comparisons of developing countries with developed capitalist states drew particular attention to differences in levels of income per capita and to the consequent poverty of the greater part of the population of formerly colonial and dependent countries. In 1950, for example, the gross domestic product per capita in the developing countries of Asia and North Africa was 16 times lower than in capitalist countries (97 dollars and 1,550 dollars respectively).[3] Accordingly developing countries viewed the rapid overcoming of that disparity and increasing their national per capita income as their principal task.

At the same time analyses of social development indicated that in the human race's age of economic history that followed the industrial revolution in England, a decisive role in the growth of productive forces and in increasing labour productivity was played by machine production. Because of its high labour productivity, other conditions being equal, it made possible rapid and substantial increases in society's net product. This in turn made it possible to both increase the level of consumption and raise the level of accumulation—a factor that could lend dynamism and stability to the entire process of social development. In short, only industrial development could disrupt the stagnant equilibrium of traditional economies that was marked by a vast underutilization of all social resources.

Equally important from the point of view of economists in developing countries was the fact that only industrial development could overcome or else substantially lessen both the open and hidden underutilization of labour resources. Indeed, a priority rate of growth of modern industry results in reallocations of the economically active population between industrial and non-industrial branches and between cities and villages. This leads to a concentration of a growing part of the population in the most effective and productive sectors and also to a reallocation of the economically active population from agriculture to industry, thus easing the "pressure on land" and also creating the prerequisites for a transition of agriculture itself to new methods of production.

The choice of industry as the priority object of development was also determined by socio-political factors. The national liberation movement brought a variety of political forces into power in Eastern countries. Power was seized by the national bourgeoisie either independently or else in a bloc with various combinations of precapitalist exploiting classes. The relative weakness of the national bourgeoisie even in those countries where it acquired political power independently, and well-established relations with exploiting strata of earlier modes of production, and the interests of feudal classes and of merchant capital in less developed countries all served to impede a shift of the center of gravity to agricultural development. For agricultural development required agrarian reforms. But that would have affected the interests of not only large landowners and associated strata of the bourgeoisie, but would have also activated large masses of peasants. In the present context such a movement would inevitably have moved beyond a bourgeois framework and threaten to overthrow ruling classes.

This made it necessary to either postpone the development of branches that first required far-reaching social transformations or else to do this through gradual evolutionary methods.

In such a sense industrial development was a less painful prospect, for extending industrial production did not harm the interests of any local exploiting class. And particularly in the early stages it was sufficient to protect the chosen branches from foreign competition, i.e. limit the activities of foreign monopolies. In the context of strong nationalist sentiment such measures could even help reduce differences among the most varied classes and social strata. In addition industrial development would help increase the size of the national bourgeoisie and consolidate its individual groups. Finally industrial development could place local bourgeoisie on a more equal footing with foreign capital and the world capitalist economy as a whole.

Aside from sujective factors resulting from the strivings and interests of ruling circles in developing countries there were also objective factors stimulating industrial development. The most important of these was the increased profit rate in industry. It has already been noted that particularly in light industry capitalist enterprises could receive additional profits through a redistribution of the val-

ues produced by direct producers. Higher tariff duties (whether for fiscal or protectionist reasons) increased these profits further through a redistribution of consumer expenditures. Following the Second World War price parity in developing countries also began to gradually change in favour of manufactured industrial goods. Between 1952 and 1966 the disparity between prices for raw materials and finished industrial goods increased by 21 per cent.[4] In short, agriculture and extraction became less profitable while manufacturing industry became more profitable. This produced a flow into industry (as the most profit-producing branch) not only of capital normally operating in the sphere of trade, money-lending, real-estate dealings, etc. but also of incomes of landowners and of middle strata.

Changes in the policies of foreign monopolies also contributed to the growing pace of industrial development. Fearing the loss of established positions monopolies of former metropolises often began to move enterprises which used to supply former colonies to these countries even before their formal independence. Similarly, in seeking to undermine the position of their competitors or else to strengthen their own positions on local markets monopolies of other imperialist states also began to invest in industries of Eastern countries. As a result, the absolute volume of foreign and mixed industrial entrepreneurial activities increased.

In the 1950s the idea that developing countries should accord priority to industrial development met with nearly universal acceptance. In particular, a report on a conference of planners of Asian countries held by ECAFE noted that "there is today no dispute about the need for diversification, through industrialization, of the economies of the less-developed countries of the region".[5] Industry became the basic focus of national efforts. Its development appeared to offer the most rapid way to overcome the disparity between developing and capitalist countries and to increase the standard of living of local populations.

The development of modern large-scale industry that developing countries sought to create could not be envisaged without first constructing adequate infrastructures. This, too, was reflected in general strategies. In addition, under the influence of imperialism's military-strategic calculations and of many Eastern countries' involvement in military blocs the development of infrastructure in the 1950s

often became an independent factor. Its growth in the 1950s greatly exceeded that of industry. In spite of a very large volume of capital investments many of the infrastructure facilities constructed during that period could not be employed for economic objectives. At the same time the general strategy of many countries understandably placed much less emphasis on developing social infrastructures than basic infrastructures.

As for agriculture—the largest sector of material production in terms of numbers of persons employed and volume of gross product and net product—the general impression is that the overall strategies did not include a clear conception of ways in which it should develop. Of course, in the plans and speeches of political leaders of practically all countries there are countless references to the need to develop agriculture, and to corresponding tasks, but the nature of required concrete measures remained not clear enough.[6]

In most countries efforts were made to increase agricultural production through such technico-economic measures as a wider use of irrigation and land improvement activities and the use of better seeds and of improved methods of cultivation. But the prevailing form of land use in Eastern countries was small-scale tenant farming and large-scale landownership. Given the slow pace of agrarian transformations that has already been noted, and the continued preservation of archaic socio-economic relations technico-economic measures alone were not sufficient. Accordingly, agricultural development continued to be based on the use of extensive methods, but since easily developed lands were already in use in many countries this caused agricultural production to lag behind population growth.

The social component of general development strategies was also marked by a certain dualism. It was clear that the introduction of machine manufacturing methods and the establishment of modern large-scale industries required both a centralization of accumulation and a certain measure of socialization of production. It is this that led to direct entrepreneurial activities by the state and to state support for the development of private entrepreneurship. Approaches to these problems in Eastern countreis varied greatly.

At the one extreme was Singapore, which inherited, as it were, approaches to development that were characteristic of Victorian England. There the role of the state was

limited to the creation of a favourable investment climate and the development of infrastructures. As for activities in support of private enterprise even tariff protectionism was abandoned after a brief existence[7] and the development of capitalist entrepreneurs was thus attributed primarily to the free market.

At the other extreme were Pakistan and Iran, where the size of entrepreneurial strata was increased by methods that were similar to those of the Japanese government at the time of the Meiji Reforms. In Pakistan the state constructed relatively large enterprises that were sold to private entrepreneurs following their commissioning or after they became profitable. Corresponding payments were made over extended periods and on the basis of planned costs rather than actual costs.[8] In Iran the state sought to turn large landowners into capitalists by paying them with shares of industrial enterprises constructed by the state in compensation for lands subjected to agrarian reform.[9]

Other Eastern states followed courses lying between these two extremes. The case of India, however, should be viewed separately, for it was marked by both a rapid development of state and private entrepreneurship and a wide range of measures designed to widen the social basis of industrial entrepreneurship and to support its lower and middle groups.

Approaches to the development of capitalism in agriculture, on the other hand, were much more cautious. For this required the termination of traditional privileges of large landowners, the removal of tenant farmers and a subsequent concentration of land. Political and social considerations led ruling circles to avoid such measures on any significant scale. Instead, the development of capitalist entrepreneurship was encouraged by a variety of indirect methods including the exempting of large entrepreneurial farms from agrarian reforms so as to encourage large-scale landowners to run their own farms; establishing a maximal size ("ceiling") for landownership (aside from redistributing lands this limited possibilities for extracting rents and by reducing the income of large-scale landowners encouraged their transition to capitalist entrepreneurship); and encouraging cooperation in credit and marketing (which is intended to help transform wealthy peasants into capitalist farmers by limiting the exploitation of peasants by merchants and money-lenders as well as large-scale in-

dustrial domestic and foreign capital). In the socio-economic situation that existed in the 1950s and early 1960s, however, all these indirect measures proved ineffective. For its part, the slow pace of development of capitalism and of a socialization of production activities impeded any measurable transition to the use of machines in agriculture. At that time only Turkey and the Philippines constituted exceptions, where the number of large-scale farms was relatively substantial. These were the farms that began to effect a transition in the 1950s to the use of machines.

In terms of appearances the overall strategy of Eastern countries recalled processes that took place in Western Europe and North America during the initial stage of the technical re-equipment of their economies: in both cases machines were only introduced in industry and transportation, while pre-industrial methods of production continued to be used in other sectors. But this is only an apparent similarity. For by the time or else in the course of their industrial revolution the countries of capitalism's "first wave" had also experienced bourgeois transformations. As a result their agriculture was subjected to a relatively high level of commodity-money relations and of capitalist relations. This relative homogeneity of production relations made it possible for villages to follow the example of capitalist cities "automatically". Having monopolized industrial types of activity Western European countries were then able to impose their own terms for exchanging industrial output for raw materials on the rest of the world, thus receiving the necessary elements of circulating capital as well as marketing possibilities. This reduced their industries' dependence on their own agriculture.

In the 1950s, however, agriculture of developing countries had not yet experienced the needed bourgeois transformations. Accordingly there was no "automatic" following of the example of capitalist cities without special measures by the state. In addition industrial development in Eastern countries depended much more on their own agriculture. Except for petroleum-exporting countries (and even then only since the late 1960s) their agriculture served as a basic source of accumulation. Then given their inferior position on the world market and discriminatory measures by imperialist powers their agricultural population also served as a basic market for their industrial products.

Thus the general strategy envisaging a variety of approaches to the development of individual branches of the economy could not live up to expectations. While rates of development in Eastern countries increased perceptibly following their political independence and their levels of industrial production continually increased, by the mid-1960s it became clear that forced self-oriented industrial growth alone could not solve the problems of underdevelopment.

It is true that high industrial growth rates did increase the rate of growth in the developing countries' gross and net products. But the modest size of the industrial sector itself combined with an extremely slow and unstable development of other branches resulted in rates of growth in national income that were below estimated ones not to mention desirable ones. In the context of "demographic explosions" the resulting yearly growth in per capita income in countries of Asia and North Africa was only 2.3 per cent in 1950-1970. This caused the disparity in income per capita between Eastern countries and imperialist states to increase from 16 times in 1950 to 19 times in 1970.[10]

Second, the industrial development itself required a rapid growth of associated branches supplying material elements of circulating capital, including means of consumption (especially food) and raw materials for new industries. But since in fact Eastern countries emphasized the development of only one branch, namely, industry itself, its relatively rapid growth not backed by the expansion of other branches soon led to the emergence and deepening of internal imbalances. This produced continuing difficulties for industrial development itself as it encountered limited internal markets not yet free from pre-capitalist vestiges, and shortages of elements of circulating capital as well as of means of transportation and of energy.

Third, as in all developing countries, the approach of Eastern countries to the creation of industries emphasized marketing possibilities (import substitution or export orientation) rather than the availability of resources. While this reduced internal market deficits or else increased foreign currency earnings it also disrupted the proportionality of sectoral structures of national industry and this created internal industrial disproportions as well. Aside from increases in sectoral costs of production this also increased

the dependence of industry's reproduction cycles on the world market.

Fourth, a one-sided emphasis on industrial development also produced increasing social contradictions. Since modern industry's own demand for labour force was relatively limited while it also caused the ruin of traditional manual methods of manufacturing in most Eastern countries its development was accompanied by increases in unemployment. In the absence of special government measures capitalist forms of industrialization were inevitably accompanied by a still greater inequality in income distribution. In settings marked by growing literacy and social awareness and a dissemination of the "demonstration effect" increased social and property inequalities intensified political tensions.

All these developments led to a gradual reconsideration of the general development strategy. The substance of the revised approach was formulated as follows in a UNIDO document: "Accelerated industrial growth was not abandoned as a goal, but it was being regarded more as one element, necessary but not sufficient alone, in a program to eliminate human suffering and poverty." [11] Economists of developing countries came to the view that is now also shared by their ruling circles, that industrial growth must also be linked to changes in other economic parameters.

After the mid-1960s the developing countries encountered either an intensification of existing problems or the appearance of new ones. Above all food shortages in Eastern countries greatly increased. While the "green revolution" contributed to a certain improvement in the position of a number of countries its scope was limited and it could not offer a fundamental resolution of the food problem. This transformed agricultural development into a key element in those countries' overall development. But the "green revolution" also greatly increased the unraveling of traditional linkages in the villages, producing visible forms of mass unemployment and intensifying migration to cities. Because unemployment is a very serious social as well as economic problem a search for ways to resolve it has become a major element of the overall development strategy.

Enormous differences in income distribution have long been a characteristic feature of developing countries. But while these had originally characterized their cities the "green revolution" was accompanied by these differences

extending to villages on a significant scale.[12] By excessively diversifying demand at one extreme and limiting it at the other, increasing income inequality twists the direction of industrial development. At the social level it operates as a source of dissatisfaction among lower population strata. It is therefore not surprising that numerous press items in developing countries referred to a possible transformation of "green revolutions" into "red revolutions". That is the reason why by the end of the 1960s most countries had included a redistribution of incomes as a component element of the overall development strategy.

Finally, the energy crisis and the monetary crisis of the 1970s together with continuing inflation and the prolonged economic recession in imperialist states raised once again with a new intensity the problem of relations between developing countries and the world capitalist economy. Because in a situation of structural crisis and prolonged instabilities a further engagement into international division of labour carries the threat of major upheavals in national economies that are still vulnerable developing countries are turning to collective efforts to limit the scale of current damage. This explains the appearance of two other new elements in the general development strategy, namely, a struggle to restructure the current system of unequal economic relations, and a striving towards collective self-sufficiency through a comprehensive widening of economic cooperation among the developing countries themselves.

A comprehensive expression of such a reappraisal of priorities is found in the development strategy for the 1980s prepared by staff members of the Economic and Social Commission for Asia and the Pacific (ESCAP) on the basis of consultations with governments in that region. That strategy envisages: a) continuing high rates of industrial growth; b) a joint emphasis on branches producing consumer and capital goods; c) the use of different technologies designed to increase the level of employment; d) more rapid rates of agricultural development to meet local needs for food and raw materials and also increase the population's purchasing capacity; e) creating a mechanism for reducing inequalities in income distribution; f) improving terms of exchange on the world market; g) establishing collective self-sufficiency; h) protecting the environment in the course of development.[13]

The new strategy expresses a shift away from simplified conceptions concerning possibilities for overcoming backwardness by emphasizing the development of any particular branch towards a complex approach in which the economy is viewed as a single mechanism. Such an approach reflects not only a deeper understanding of development's regularities and mechanisms but also the capacity of an increased economic potential in developing countries to set and solve more complex tasks. It reflects an increase in the number of skilled cadres, the creation of an institutionalized system to control economies and such economic factors as increases in national income and higher rates of accumulation. But it also reflects lessons learned in the joint struggle of developing countries against imperialism for restructuring the current unequal system of international economic relations.

There is no doubt that the tasks formulated in this new development strategy correspond more closely to the actual conditions of developing countries than did the ideas embodied in the first two strategies (in the 1960s and 1970s). This is shown by efforts to overcome intersectoral and intrasectoral disproportions, reduce the level of unemployment, reduce economic inequalities, etc. Yet, possibilities for a more rapid development and for overcoming the backwardness do not depend on a clear definition of short-term and long-term objectives alone. They also require that appropriate measures be selected to implement the general strategy. When considered from such a point of view the documents that were prepared suggest that in this aspect the turn away from past practices was less pronounced than formulations of the objectives.

In particular, it is proposed that agriculture be developed by attracting additional labour force, increasing the use of fertilizers, extending irrigation facilities and land improvement. In short there is currently an emphasis on achieving rapid increases in the productivity of land rather than of labour. This is fully understandable and justified in view of growing unemployment, but in fact there is a wider concern. This is to preserve the existing technical and economic approach to agriculture. Naturally, the application of modern scientific and technological achievements to agriculture can and does actually yield a certain economic effect through such factors as a greater stability in harvests, the introduction of multiple cropping, and higher

yields. But in the present socio-economic context such innovations may be applied by a relatively small proportion of farms. A truly effective development of agriculture requires an active participation of the basic mass of direct producers in corresponding activities. In Eastern countries this can only be achieved by linking economic growth to social transformations and an overcoming of vestiges of precapitalist relations. While the documents that were mentioned recognize existing vast inequalities in the distribution of land, the negative role of merchant and usury capital and some other factors effective measures to struggle with these impediments are not proposed. Rates of growth of agricultural output are therefore unlikely to increase substantially.

Before the 1970s the problem of limiting the inequalities in income distribution was seldom mentioned in official documents. The explicit formulation of that task is thus an unquestionable merit of the new strategy. But as the basic ways to achieve this they named reducing unemployment through the use of specific technologies, encouraging the development of small-scale industry, and increasing construction activities. Bringing down the level of unemployment can indeed increase the incomes of lowest social strata both absolutely and relatively and reduce the severity of that extremely important social problem. Unemployment, however, is only one of the causes of inequality in income distribution. Yet, no new measures are proposed against the concentration of incomes in the hands of the rich except a rationalization of taxation systems and measures to overcome tax evasions. While changes in taxation systems may limit income inequality they do not overcome its causes, which lie in forms of ownership and in these countries' involvement into the world capitalist system. Accordingly, the influence of these ways of reducing income inequality is unlikely to be substantial.

Yet the enormous income disparities in developing countries are a major economic problem as well as a social one. Aside from narrowing the market for branches producing vital consumer goods and thus holding back the emergence of industrial sectors that played a major role in the industrialization of Western countries they stimulate the creation of enterprises producing luxury goods and consumer durables that do not generate strong impulses towards economic development, since corresponding mar-

kets are relatively small as well as diversified while the production of these goods depends on external markets.

It is clear that eventually the methods being proposed for carrying out the general development strategy will inevitably conflict with their objectives and this will impede their realization. More generally it would appear that in spite of subjective aspirations of social forces and impulses generated by world development the implementation of development strategies in Eastern countries depends on three factors.

First, the existence of deep poverty, backwardness, and mass unemployment itself prolongs explicit or else vestigial forms of precapitalist relations. The diversity of production relations increases as the sector of modern productive forces develops and this preserves the operation of a variety of stimuli, reproduction rates and disproportions. Since traditional types of reproduction are not evenly distributed throughout the economy but tend to be concentrated in particular sectors and especially in agriculture this creates and sometimes also intensifies chronic intersectoral disproportions. It may be expected that this will continue until capitalistic methods of production play a leading role in agriculture.

Second, the preservation of a large precapitalist periphery in a sense facilitates the selection of capital investment projects. Capital's inherent need to increase itself pushes it into sectors in which turnover is rapid and profitability high. But the development of such branches does not always correspond to long-term development objectives. In pursuing the latter the state is forced to introduce additional privileges to create a favourable investment climate for private capital in sectors to which it attaches long-term priorities. The resulting losses to society at the given moment are larger than they would be under different social conditions and this postpones still further the time when long-term objectives can be achieved.

Third, to a substantial extent the technical and also in part the social modernization of the economies of Eastern countries depend on the world market. For that is where a significant part of their gross product is delivered. The world market also remains a basic source of modern means of production and technology. While in the late 1960s and early 1970s like other developing states Eastern countries succeeded in partly improving their position on the world

market through a wider access of their industrial products to markets of developed capitalist countries, reduced rates of interest, longer repayment periods, and a large volume of credit, both the energy crisis and the monetary crisis that followed, as well as the prolonged economic recession and increased economic instability in capitalist countries have made the situation of Eastern countries more complex. A lower demand for their raw materials, deteriorating terms of trade, a sharp increase in the cost of imported petroleum and petroleum products, and new barriers on exports of industrial products have made more difficult the prospects of non-petroleum-exporting countries for increasing their rate of modernization. It is clear that all these factors create an increasing gap between the development strategy elaborated for the 1980s and actual possibilities for its implementation. It is therefore not surprising that the view is increasingly held that this strategy cannot be realized in practice.

Two Approaches to Industrial Development

It was noted that the general strategy of Eastern countries viewed rapid industrial development as a generator of economic growth and of social changes. Yet possibilities for transforming industry into a "locomotive" of development also depended on the forms and methods that were employed for establishing modern industry—its sectoral structure, the nature and volume of linkages with other branches, the level of technological equipment of enterprises, and the resulting need for capital and labour force. In short, these factors, too, had to be determined by the industrial development strategy. It is therefore appropriate to examine the specific features of Eastern countries' industrial development strategy more concretely.

Economic theory usually notes two particularly widespread and effective ways of industrial development, namely, the establishment of multi-sectoral industrial complexes and the development of a key industry. That classification is relatively arbitrary: it reflects not so much final outcomes—since multi-sectoral complexes cannot extend to all industries and a key industry is usually surrounded by a complex of interrelated industries—as the initial methods of industrial development that are employed.

Within a multi-sectoral industrial complex its central

industry is linked through a system of feedback with industries supplying raw materials and through a system of direct linkages with branches consuming its finished product. Its central industry's demand, which is conveyed along its chain of feedback, results in the emergence and subsequent development of intermediate industries and raw material-producing industries, while its own output facilitates the development of industries producing final products. Thus activities of the central industry spread in this way to all branches of the national economy serve as impulses of economic growth.

At the same time the mutual complementarity of all industries of the complex produces an external economies effect on capital investments, [14] and thus a greater return on invested capital during the life-time of the complex. In the opinion of A. Hirschman, an American economist, the cumulative effect of economies of both direct and feedback relations is twice as large as that of one type of relations alone. It follows as the chain of direct and feedback relations becomes larger, i.e. as the number of industries in the complex grows larger, the external economies effect, too, will increase. Ferrous metallurgy, in A. Hirschman's view, offers an example of combined direct and feedback relations. [15]

The creation of a complex containing a large number of industries and encompassing all stages of a production process ranging from the extraction of raw materials to the production of the final product may generate the needed dynamism to the entire process of economic development as well as reduce production costs. But the realization of such potential advantages of a multi-sectoral complex requires that most of its component projects be constructed simultaneously. [16]

In practice, the creation of such complexes faces numerous difficulites. One is the very great complexity of preparatory activities and planning. Not only must the firm or state organisation creating a complex design numerous diversified enterprises and projects practically simultaneously, but it must also link them with each other and balance them, for the optimal size of enterprises varies from industry to industry. It is also necessary to select an optimal location for each enterprise and project that will reduce transportation costs. Still another difficulty concerns the finding of extensive material and financial resources. These

must be found, moreover, simultaneously, for the creation of multi-sectoral complexes is rational and effective only when all its enterprises and projects can be commissioned relatively simultaneously. Finally, both the construction and operation of a complex require skilled cadres. Even though their absolute numbers may be relatively modest specialists will be needed from hundreds of professions.

This is why the creation of multi-sectoral industrial complexes is economically justified only in large countries whose internal market can absorb their output. Further constraints follow from the very large capital investments and multiplicity of skills that they require. For it follows that they may be created not only in large countries but in large countries that have already attained a certain level of economic and social development. In Eastern countries, moreover, where the national bourgeoisie was economically weak, foreign monopolies were not interested in very large and initially unprofitable investments, such complexes could only be created by the state. This produces still another constraint: multi-sectoral industrial complexes can be established only in large, relatively developed countries possessing a strong state capitalism.

It would appear that in the East in the 1950s only one developing country, namely India, possessed all these qualities noted and was therefore able to create multi-sectoral industrial complexes. As their national incomes increased, as did their rate of accumulation and general increase in their level of development, such possibilities appeared in a number of other states as well, particularly in petroleum-exporting countries (Iran, Saudi Arabia).[17] Today, two other major Eastern countries, namely Indonesia and Pakistan, stand at the threshold of a transition to development through the construction of multi-sectoral complexes.

It is evident that development through the creation of multi-sectoral industrial complexes is not a suitable method for countries that are not large in terms of their internal markets' absorption capacity, availability of material and financial resources, and skilled cadres. At early stages of development, when material, financial, and skilled labour resources are highly limited that method also does not suit the overwhelming majority of large developing countries. In these cases the development of a key industry is emphasized.

In the selection of a key industry at least three criteria

are employed. Above all it must possess a good development potential within the country itself in the sense that corresponding climatic conditions, natural resources, and adequate labour force must be present. In those developing countries in which manufacturing industries are relatively immature and possess a low level of effectiveness abundant natural resources are a necessary prerequisite for selecting a key industry, for with rare exceptions products manufactured from imported raw materials are not competitive on international markets.

A key industry must also possess relatively ramified direct and feedback intersectoral relations in the sense that its creation should contribute to the growth of industries supplying elements of fixed and circulating capital as well as consuming its output. That criterion precludes the identification of a key branch within extractive industry for the latter possess extremely limited feedback relations.

Finally, since the internal markets of those developing countries that are not large possess a limited absorptive capacity key industries should be able to sell a part of their output on external markets. Such export activities, moreover, should help increase the effectiveness of the country's participation in the international division of labour. But this imposes particular requirements with regard to the technical level, organization and management of corresponding enterprises. For only when these indicators are better than world average will the industry be competitive on external markets.

The effectiveness of a key industry is largely determined by the extent to which it activates a mechanism of direct and feedback relations that encourages the creation of still other industries or else the expansion of already existing ones. A well selected key industry can lead to the gradual development around it of a relatively weighty production complex. The latter's activities, which encompass mutually complementary industries, also produce an external economies effect that lends dynamism to the national economy and activates a mechanism of expanded reproduction.

The industry's external economic activities also contribute to a strengthening of the proportions of expanded reproduction. If its production costs are below average world levels its output will be exported at prices exceeding national costs. At the same time by producing a stable flow of foreign currency wide export activities by such an industry

contribute to a productive realization of internal accumulation.

Yet all such progressive structural shifts in national economies resulting from the development of key industries are only possible when two conditions are met. First, if the given country does indeed possess favourable possibilities for producing the given type of output that allow it to reduce costs of production below their average world level. Second, if the low costs of production and stable relations with principal consuming countries allow it to continually expand its exports. Should any constraints develop in this respect in the economic or political sphere that mechanism will cease to operate.

While the development of key industries and of corresponding production complexes in developing countries may take place more easily because of lower initial requirements for capital investments, the possibility of commissioning facilities at different times and the larger homogeneity of production units, it is nevertheless associated with difficulties that are as great as those of multi-sectoral complexes even though they are of a different character. Above all it is extremely difficult to identify the key industries themselves in developing countries. The reasons for this include insufficient statistical data, the disruption of normal reproduction linkages because of the dependence on the world market, the distortion of all cost indicators because of protectionism, subsidies, disregard of rates of exchange as well as the existence of multiple rates of exchange, etc. Beyond this the very functioning of key industries depends not only on economic factors but also on social ones (because of the socio-economic diversity of component sub-industries) and political ones (because of its strong dependence on the world market).[18] All this greatly increases the difficulties in both determining key industry selection criteria and the practical application of theoretical propositions.

Finally, as the level of development increases and relative prices for factors of production change the identity of a key industry, too, may change. The existing key industry may be replaced by altogether new one or else by an old one that had formerly played an auxiliary role. Such a replacement of key industries can currently be observed in developing countries of the Far East.

In the East where small countries practically cannot be found these two methods of industrial development are un-

likely to occur in a pure form. In large countries they appear as phases of industrial development. A country that initiated its industrial development with the creation of a key industry then shifts to the construction of a multi-sectoral complex. And conversely countries in which a multi-sectoral complex has developed may then begin to develop another key industry located in some other region. In all Eastern countries, however, independently of the size of their territory and population, the differences between these two methods have become eroded in the course of preceding periods of industrial development. Indeed practically no country began its industrial development following independence from the scratch. The existence of industrial enterprises that were formed in the colonial period to serve either external or internal markets provided a significant measure of movement to the entire development process. Their activities continued and even expanded whether or not they were engaged into the orbit of the direct or feedback relations of some central or key industry. That measure of movement was further strengthened by the system of mutual relations and division of labour that had developed within the world capitalist economy.

Such is the theoretical approach to problems of industrial development and of selecting an optimal strategy of development. But in developing countries involved into the world capitalist economy and developing along the capitalist way, its principles were inevitably distorted. For according to dominant conceptions industrialization must be guided not by the presence of material and labour resources (that is viewed as a necessary rather than as a fundamental condition) but rather by existing markets. But since during their colonial period that group of countries had been transformed into sources of raw materials and markets for the industries of metropolises imported commodities generally prevailed on their domestic markets, while local industries supplied their output primarily to external markets. In such a context any measure to subordinate industrial development to marketing implied either replacing imported commodities by locally produced products or an orientation on exports. That distinction became strongly rooted in the mind of developing countries' ruling and business circles and exerted a substantial influence on strategies of industrial development.

Import-Substitution and Export-Orientation

The concept of import-substitution usually refers to the increment of local production that goes to substitute for a decline of imports in the overall share of supplies of the given product available on national markets. This implies that national industrial production can develop independently of the dynamics of effective demand on domestic markets up to the point when it will oust the imported products. The possibility of realizing existing effective demand thus serves as the basis of the relative independence of the development of import-substituting types of production from the current state of other branches of the economy. In its turn under specific conditions a priority development of import-substituting industries may induce a process of overall economic growth. [19]

Import-substitution is not a revelation in the economic history of developing countries. During the second half of the nineteenth century the development of India's textile industry led to the displacement of English cotton goods on domestic markets. That example was typical. Nevertheless, the scope that import-substitution acquired in developing countries following the collapse of the colonial system has lent it a qualitatively new character.

The situation that existed in the early 1950s contributed to a nearly universal adoption of import-substitution as a major approach to industrial development. The transformation of colonial and dependent countries into markets for the products from imperialist states resulted in the forming of national markets and in terms of absolute magnitude the appearance of a relatively substantial effective demand for specific types of commodities, especially for consumer goods. Subsequently protection from foreign competition through tariff system, tied imports and changes in rates of currency exchange as well as measures to encourage national entrepreneurship and in many cases the entrepreneurial activities of the state made it possible to displace imported commodities from domestic markets and capture existing effective demand, even when locally produced commodities were initially more expensive and of lower quality than the imported ones.

It has also been noted that before the 1970s there occurred a deterioration in the terms of trade of developing countries generally. Prices for raw materials that they ex-

ported declined in relative terms while those for final industrial goods increased. That deterioration in terms of trade held back the growth of developing countries' export earnings. In some countries the elasticity of export sectors was too low to compensate for declining prices through increases in the physical volume of exports. But in those countries that were able to increase their exports declines in foreign currency earnings resulted from still larger declines in prices for their goods. In turn, shortages of foreign exchange and balance of payments deficits made it difficult to increase imports to a level that would meet even existing effective demand. As a result import-substitution at any price became a kind of "economic imperative".[20]

Moreover, initially the development of export-oriented industries could only be largely based on the expansion of a primary processing of traditional types of mineral or agricultural raw materials. But the relative decline in demand and of prices that has been noted made such an approach not promising. Yet in the 1950s newly liberated countries were not yet able to create new types of export-oriented industries.

Finally, at that time the development of import-substituting branches of industry appears to have better served the interests of foreign monopolies than did the widening of export branches. On the one hand, in the 1950s and 1960s there occurred a rapid restructuring of the production facilities of developed capitalist states under the influence of the revolution in science and technology that was accompanied by a decline in the material-intensity of production, the use of synthetic materials, and the introduction of fundamentally new technological processes. This resulted in an absolute as well as relative decline in the needs of imperialist states for many types of raw materials (or for corresponding semi-manufactured goods) supplied by developing countries. At the same time the development of capitalist reproduction in the context of the revolution in science and technology produced a sharp deterioration in the situation of a number of traditional industries in developed capitalist countries (such as food, tobacco, textiles, leather and shoes). Not only were essentially protectionist higher tariff duties employed to protect them but also import quotas on competing products. Yet these were the very industries with products of which the greater part of exports from developing countries was expected to compete. In addition more intensive forms of inter-imperialist competition and

the threat of the introduction of protectionism in newly liberated countries in the 1950s increased the inflow of foreign capital into the industries of Eastern countries. Thus for both economic and socio-political reasons foreign monopolies preferred to create import-substituting rather than export-oriented industries in developing countries.

In short at the early phase of industrial development, when the effectiveness of national industries is still low because of insufficient skills of their managerial and production personnel and insufficiently developed infrastructures an emphasis on import-substitution is objectively unavoidable. [21] It is only measures of national states that limit access of foreign commodities to domestic markets through fiscal and administrative steps and stimulate local entrepreneurship through various preferences that create the conditions that an emergence of import-substituting industries requires. This is precisely why import-substitution as an actually wide process could develop only after political independence had been achieved.

Import-substituting forms of industrial development in developing countries produced a situation in which an increasing part of industrial production served domestic markets. A. Elianov has estimated that in the 1950s the rate of growth of industrial output in that group of countries was 2.38 times higher than that of exports of industrial commodities. [22] In other words more than 70 per cent of the entire increment of industrial output was delivered to domestic markets. This produced a continuous increase in the self-sufficiency of developing countries in industrial products. Estimates prepared by UNIDO indicate that the share of locally produced commodities on domestic markets of countries of Asia, Africa and Latin America increased from 75.5 per cent between 1955-1959 to 78.1 per cent during 1960-1964. [23] In Asian countries this occurred even more rapidly. In India the share of imported commodities on the domestic market declined from 22.6 per cent to 11.5 per cent between 1950/51-1965/66. In Pakistan the share of imported consumer goods declined from 87.5 per cent in 1951/52 to almost nil in 1964/65, while the corresponding figures for intermediate goods were 73.2 per cent and 15.0 per cent, and for capital goods they were 76.3 per cent and 62.3 per cent. In Sri Lanka between 1955/56 and 1962/63 the share of imported commodities declined from 57 per cent to 48 per

cent. In the same period in the Philippines it declined from 21 per cent to 15 per cent and in Burma from 38 per cent to 22 per cent.[24] If one keeps in mind that between 1950 and 1965 imports of Eastern countries increased by nearly 2.2 times it will be clear that the effect of import-substitution forms of approach to industrial development was fairly substantial.[25]

The opinion is often expressed in corresponding economic literature that import-substitution approaches to industrialization tend to emphasize the development of consumer goods industries. In fact this is true only of countries that are at the lowest level of industrial development. In Pakistan before the early 1960s, for example, it is true that the highest rates of development occurred in light industry. It has alredy been noted in the second chapter, however, the traditional sequence of development of individual industries is altered in developing countries. The need to develop and maintain infrastructures, changes in the composition of consumption, and the "demonstration effect" have made it necessary to accelerate the development of heavy industry. Indeed, in 1949-1967 the average yearly rate of growth of processing industries was 6.2 per cent in Eastern countries (8.6 per cent in heavy industry and 4.9 per cent in light industry).[26] In other words the objective principle encouraging a priority rate of growth of heavy industry began to operate in developing countries as well.

On the whole the emphasis on import-substitution provided quite a powerful impulse to the industrial growth of developing countries. While in 1938-1948 the average rate of industrial growth of countries that are viewed today as developing countries was 3.7 per cent, it was 7.2 per cent in 1949-1965, i.e. it nearly doubled. Because rates of industrial growth in developing countries were higher than in developed capitalist countries their share in the capitalist world's industrial output between 1949 and 1965 rose from 9.3 per cent to 11.5 per cent.[27] The rates of growth of industrial output were also higher than those of imports of manufactured goods. If one defines the domestic market's absorption capacity as domestic industrial output plus imports (and this will be a reasonable approximation) then during the decade between 1955 and 1965 the national industries of developing countries captured more than two-thirds of those countries' increment in effective demand for industrial products.

By the mid-1960s, however, the effectiveness of indus-

trial development strategy based on import-substitution began to noticeably decline. Above all a decline became apparent in rates of industrial development. Between 1966 and 1970 the average yearly rate of industrial growth in developing countries was 6.8 per cent.[28] That decelaration was attributable not to a reduction in the construction of new facilities but to underutilization of existing production capacities. This led to a freezing of substantial volumes of investments. In that connection a UNIDO document observes that in some developing countries operations at less than full capacity in industry are becoming a major obstacle to further industrialization and create the threat that further industrialization will operate to the detriment of the economy. Increased idletime of installed capacities has resulted in increased capital-intensity, higher costs of production and hence higher sales prices and reduced marketing possibilities. In addition import-substituting forms of industrial development have also disappointed the hopes that had been associated with it for absorbing unemployment and improving balance of payment deficits.

This resulted in increased criticism and active opposition to the conception of import-substitution as such. Disappointment in its effectiveness became increasingly evident in documents of international organizations, official resolutions of governments of developing countries, studies of economists and pronouncements of businessmen.[29] It seems that the difficulties that resulted from the import-substitution strategy were due to both specific characteristics of markets of developing countries and the methods of import-substitution themselves.

A major specific feature of domestic markets in developing countries is the dominant character of their demand for finished products. There is, for example, demand for cars and radios but not for ferrous or non-ferrous metals, plastics and dozens of other materials that their production requires. As a result the replacement of imports of industrial products in these countries begins with the production of final goods manufactured on the basis of imported intermediate products or raw materials. Since the production of raw materials and intermediate products is generally more capital-intensive and requires far larger optimal enterprises it tends to be established at later stages of industrial development when domestic demand is sufficiently large.

The following example illustrates the consequences to which this type of import-substitution may lead. Even technologically relatively simple cotton-textile industry is able to operate continuously only with the close support of dozens of other industries. Its current material reproduction expenditures include 48 per cent for raw cotton, 10 per cent for products of chemical industry (dyes, bleaches, etc.), 10 per cent for packaging, and 3 per cent for fuel and energy. Thus a country possessing cotton and turning to the production of cotton goods must either simultaneously create dozens of mutually complementary industries or else to meet through imports nearly one-half of current reproduction requirements. In the case of industries that are technologically more complex, such as engineering and chemicals, the chain of direct and feedback relations is far longer and more diversified. There the replacement of imported final goods requires still greater volumes of imported intermediate products.

At present the cost of intermediates in developed capitalist countries accounts for as much as two-thirds of the total value of their industrial output. Thus by emphasizing the production of final goods requiring the importation of intermediates developing countries can use only 30-40 per cent of their domestic markets' effective demand. The larger remaining part is in effect surrendered to foreign producers.

In short under the existing structure of production and demand in developing countries, import-substitution results not in a cessation of imports of industrial products generally but in a replacement of imports that are more processed by others that are less processed. In fact this actually increases the dependence of national industries on the world market. For while initially only fixed capital was purchased on foreign markets and also materials to keep it operational eventually this dependence extended to intermediates. As for the costs of imports they declined not absolutely but only in proportion to the volume of local output. In fact even under extensive forms of growth in production (matching, for instance, natural population growth) the costs of imports may increase.

Another feature of the domestic markets of developing countries is that there are very large disparities in the distribution of incomes while the activities of foreign monopolies encourage a high level of diversification of demand in spite of its low absolute level. In short, while nearly all

types of commodities are consumed in developing countries today as in developed countries, the volumes that are consumed are far lower. In effect, their demand is even more partitioned than in developed countries. The efforts of monopolies of various countries to consolidate their position on the domestic markets of newly independent countries produce a situation in which there are many products of the same type but produced in different countries.

Such a structure of consumption has produced a highly specific course of industrialization in Eastern countries. The unprofitable nature or the impossibility of creating intermediary production facilities at current stages of development because of the high degree of partitioning of demand has caused their industries to develop horizontally as the construction of even a small number of enterprises (sometimes one or two) made it possible to fully meet their domestic markets' needs for a given type of product. As it encountered saturated markets capital shifted to the development of new types of final product. In short at the stage of import-substitution it was primarily their industrial structure's "upper tier" that was developed.

The fact that the feedback relations of final production facilities were focused on external markets produced two consequences. First, the absence of mutually complementary industries prevented the emergence of an external economies effect, and this reduced the effectiveness of capital investments. Second, since the reproduction of linkages between final products and raw materials branches was mediated by external markets the development of "upper tier" industries did not produce a simultaneous growth of other branches of the national economy. Impulses originating in import-substitution forms of industrial development largely benefited the world capitalist economy.

Once all final production industries that were economically and technologically viable at given stages of development had basically been mastered one would have expected a shift to the creation of industries producing intermediate products. But this was prevented by state economic policies as well as pressures of business circles and the partitioning character of demand that has already been noted. In seeking to stimulate import-substitution the state reduced tariffs on the importation of raw materials, semi-processed goods and capital equipment, while increased duties were levied on the importation of commodities whose

domestic production was being encouraged.[30] But following the commissioning of enterprises producing final goods their owners began to object against higher duties on imports needed to sustain their reproduction, for this could produce further increases in costs. Similarly the partitioning of demand impeded the development of intermediate production facilities since the volume of effective demand was often lower than optimal production size. This served to greatly prolong that process in the overwhelming majority of countries.

Two other negative consequences of the given type of import-substitution approach to industrial development should also be noted. The low absolute level of demand for each product resulted in the creation of small enterprises much inferior to those in industrial countries. Since the minimal size of enterprises was often determined by the types of equipment produced in developed countries, even their minimal size often exceeded the needs of domestic markets. As a result from the very outset the construction of an enterprise presupposed the freezing of a certain part of its fixed capital. The second negative consequence was that the continuous initiation of new final products also led to a continuous increase in both the volume and assortment of imports of intermediate products. Together with the need to import capital goods, food and other commodities, this exerted a growing pressure on the balance of payments. Shortages of foreign exchange frequently made it necessary to limit the importation of intermediates thus impeding the utilization of even already installed facilities. As a result the small size of enterprises and incomplete utilization of installed facilities were a major problem underlying high costs of production.

The process of import-substitution itself was not attributable to an awareness of national interests and a complex approach to economic development in which industry plays a leading even though not an overriding role, but to the current needs of individual countries or to interests of national or foreign entrepreneurs. This is why it was greatly influenced by a modified market mechanism: import-substitution was stimulated by higher import duties or tied imports as well as by credit preferences and state subsidies to newly created enterprises. In such a context the magnitude of import duties was determined by four basic factors: the protection of new branches (primarily producing

final goods) from foreign competition; maintaining the current reproduction of new branches by providing tariff privileges to the importation of raw and semi-processed materials; efforts by the state to receive additional revenues from indirect taxes on the output of new branches; and efforts to limit the importation of luxury goods and commodities of secondary importance in order to economize foreign currency.

As a result the level of tariff duties on imported commodities in developing countries turned out to be exceptionally high. A. Maddison has estimated that in the mid-1960s import duties in developing countries were approximately 10 times higher than in the case of the EEC or the United States. [31] In particular, the importation of luxury goods and of non-essential commodities was in effect subjected to prohibitive tariff rates. Such duties were as high as 500 per cent in Malaysia, and 250 per cent in Pakistan. [32] A number of countries and especially India and Pakistan also made wide use of non-tariff forms of protectionism.

The high level of tariff protectionism produced two consequences. First it disrupted the proportions in which capital was allocated among individual branches. The profitability of new capital investments in a particular branch was increased whenever it was subject to high levels of protectionism. But since the highest duties were levied on the importation of luxury goods and non-essentials the highest rates of development were frequently experienced by industries whose importance for social reproduction was limited.

In short the sectoral structure that developed as a result of import-substitution reflected the situation on the market rather than such rational strategies as the creation of multi-sectoral complexes or of key industries. This is why the newly developed branches of industry interacted with each other through the world market rather than at the national level, thus largely losing the advantages of mutual complementarity and of external economies. Sectoral structures of national economies were also governed by an already developed demand. Since industrial commodities were practically absent in the reproduction expenditures of largely precapitalist forms of agriculture feedback relations did not emerge and agricultural production was linked to industries only through direct relations. As a result indus-

trial development during that period did not lead to a technical reequipment of agriculture.

Moreover, high industrial profits were also generated in cases in which costs of production substantially exceeded international levels while the stability of protective barriers did not encourage a search for ways to reduce them. In turn high production costs of industrial products intensified redistributive processes in the economy and this limited the level of consumption on domestic markets, thus holding back a further expansion of industry itself. Finally, as industrial production expanded and as its share in social output increased high costs of production caused an excessive rise in capital-intensity and hence a reduction in overall rates of economic growth.

The negative consequences of import-substitution approaches to development were produced not by that strategy as such but from the striving of developing countries to conform to the market mechanism in applying it (even though modified) to a greater extent than was feasible. Indeed no country attempted to follow a comprehensive approach and apply comprehensive planning to problems of import-substitution. It would appear that the effectiveness of import-substitution approaches to industrialization could have been sharply increased if substantial limitations had been imposed on free market mechanisms and if import-substitution had been the object of long-term planning.

It was not import-substitution as such but its application to the "upper tiers" of national industries that produced difficulties. This is why under a comprehensive approach to industrial development import-substitution can still for a relatively long time serve as an important source of industrial growth, particularly in large countries. But the possibilities for comprehensive approaches to import-substitution depend both on changes in the state policy and a number of socio-economic reforms—such as reduced inequalities in income distribution, a rigorous control over the activities of foreign monopolies on the domestic markets of developing countries, etc.

As the shortcomings of the present approach to a strategy of import-substitution became increasingly apparent interest grew in the conception of export-oriented industrial development. It was largely based on the experience of small countries that had already been involved in the international division of labour in the colonial period (Ma-

laysia) or else had created export-oriented industries with the help of massive inflows of foreign capital (Singapore, Hong Kong, Taiwan). Their experience indicated that a priority development of export-oriented industries made it possible to achieve higher rates of economic growth and also to increase the overall effectiveness of production. A servey prepared by UNIDO noted that "the history of developed countries and of a few developing countries confirms that exports can potentially become a dynamic component of output growth and a stimulus to the development of inter-industry links, and ultimately to employment". [33]

Indeed a wider participation of developing countries in the international division of labour permits them to overcome the limitations of effective demand on domestic markets, involve into production unutilized production capacities and labour resources, and optimize the structure of their national economies. Participation in the world market compels them to raise the effectiveness of technological structures and labour productivity to world standards thus reducing costs of production. In turn further advances in their participation in the international division of labour increase foreign exchange earnings and help overcome imbalances and increase their rate of growth.

In the second half of the 1960s the conception of export-oriented development rapidly gained in popularity. By the early 1970s the need for a priority development of export-oriented industries was formulated in the documents of many international organizations and export-oriented regional development plans appeared. That approach was also reflected in some national plans of economic development. Unfortunately, as two decades earlier, there were some excesses. Just as in the late 1940s and early 1950s import-substitution was described as the only possible method of industrial development, in the late 1960s and early 1970s attempts were made to represent export-oriented development in a similar way. [34]

It would seem that such a change in approaches to development strategies can be attributed to several factors. A certain industrial potential in the course of import-substitution oriented development had been created whose full utilization within corresponding countries was held back by vestiges of archaic relations. Accordingly, both greater technico-economic possibilities and an unwillingness to car-

ry out radical socio-economic transformations pushed developing countries to enter external markets.

Another factor that contributed to this related to changes in the approach of foreign monopolies to the industrial development of newly independent countries. These changes reflected both a general change in the balance of forces on the international scene and influences of the scientific and technological revolution. The energy crisis, a striving to control sources of raw materials in short supply, and also ecological problems caused monopolies to seek to transfer to developing countries production activities requiring large amounts of energy, materials, and living labour and forms of production that pollute the environment. The output of these enterprises is largely channelled by inter-firm contracts to holding companies. In short, a number of branches of industry in developing countries were in effect transformed into sub-contractors of foreign monopolies.

The dismantling of colonial structures and industrialization require substantial increases in the inflow of imported resources into developing countries, and this could be provided neither by current volumes of exports nor the inflow of external resources in the form of state or private foreign capital. Increases in foreign currency earnings through increased export, especially of processed products, were becoming an objective need.

In short during the second half of the 1960s both in the developing countries themselves and in the world capitalist economy conditions developed that called not only for changing the industrial development strategy but also made possible the practical implementation of the new strategy. While between 1948 and 1965 exports of processed products from developing countries rose less than did rates of industrial growth, in the second half of the 1960s and in the 1970s such exports rose nearly twice as rapidly as their level of output. This caused the share of processed products in the exports of Asian countries to rise from 23.2 per cent to 36.3 per cent between 1963 and 1975. The share of countries of that region in supplies of processed products to the world market also began to rise. Yet a small number of Asian states, namely, Singapore, South Korea, Taiwan, India, Pakistan and Hong Kong accounted for a greater part of these exports, they contributed more than four-fifths of their total value. [35]

Still the greater engagement of Eastern countries in the international division of labour did not produce more rapid industrial growth rates. In 1971-78 the average yearly rates of industrial growth of newly liberated countries declined to 6.2 per cent (against 6.8 per cent in 1966-70) [36] and the instability of industrial development increased. That decline was especially pronounced in countries that were most engaged in production for the world market. This provides grounds for considering that a strategy of export-oriented development alone cannot provide high and stable rates of growth.

Above all it should be noted that the development of export branches of industry exerts an unequal influence on countries that vary greatly in size and population. In the case of small countries like Singapore, the creation of a limited number of relatively large export enterprises did indeed contribute to a rapid increase in its level of industrial output. An increase in exports of 1.6 per cent was accompanied by a growth in industrial output of 1 per cent. In large countries, on the other hand, in which a relatively large absolute volume of national product and industrial product is consumed domestically, the influence of export industries on domestic growth was much more limited. In India, for example, it is necessary to increase exports by 10.2 per cent to increase industrial output by 1 per cent. In order for exports to exert any applicable influence on national production the required expansion of external markets would be so large as to remain highly improbable in the foreseeable future. In large countries, accordingly, domestic markets continue to play a decisive role in increasing their industrial output.

Under the conception of export-oriented development export industries are viewed as generators of economy-wide growth. But it would appear that such industries cannot be viewed in an undifferentiated manner, for they differ in terms of technological processes and the nature of their direct and feedback relations. From such a point of view one may distinguish the following groups of industries in developing countries. As a result of changes in the structure of consumption in capitalist countries in recent years world market demand for the crafts and artistic products of newly independent countries (products made from wood, bone, cloth, hand-woven carpets, metalwork) has rapidly increased. The very nature of corresponding forms

of production that rely on traditional means and production technique requires extensive forms of increase, that is a relative correspondence of rates of growth in output and employment. But these industries hold an autonomous position and have very limited direct and feedback relations with major branches of material production. This is why increases in such exports also expand employment, internal effective demand, and foreign exchange earnings but do not stimulate the development of other industries.

Other export enterprises that are very close to that group include diamond-polishing in India and the assembly of electronic components and optical instruments produced by foreign monopolies in South Korea, Hong Kong, Taiwan and the Philippines. Because the direct and feedback relations of such enterprises pass through the world market they also increase employment, effective demand, and foreign exchange earnings. In some cases a large part of such earnings (or their larger part) may be spent on imported consumer goods to meet the growing demand. This produces a continuation of "growth without development".

A third group may include enterprises that process agricultural or else mineral raw materials that developed in the colonial period. Subsequently their exports have grown substantially through both an expansion in their capacities and their "quality-oriented diversification". Today, their output plays a leading role in the developing countries' exports of industrial products. Since unlike the two first groups these industrial enterprises form an integral part of their national economies their development also increases the three indicators noted earlier, and advances interrelated industries. Yet their chain of feedback relations is very short. In the case of the sugar industry, for example, whose output is included in the three most important and most rapidly growing export commodities of such five Asian countries as Fiji, the Philippines, India, South Korea and Thailand sugar cane forms 72 per cent of all current material costs of production while services form 20 per cent, and all other branches of industry and transportation form 8 per cent. For such cost structures only very large levels of output can induce the creation of industries delivering fuel, energy and auxiliary materials. In principle, the development of the sugar industry could stimulate agriculture. Very strong vestiges of precapitalist relations,

however, continue to exist in Eastern countries, therefore possibilities for their development depend not only on economic but also on socio-economic factors. Accordingly, expanded exports of products of light and food industries do not automatically increase agricultural production.

The influence of traditional export-oriented industries on increasing employment, too, appears to have been exaggerated. In a situation of intense competition on the world market not only in terms of prices but also quality these industries possess limited possibilities for replacing embodied labour by living labour though their labour costs are relatively low. In particular in the 1950s and 1960s India's largest export-oriented industry—the production of jute—had to modernize extensively in order to retain its position in the world market. This led it to reduce the size of its labour force by one-fourth while the volume of capital investments per employed person nearly tripled. [37]

Finally, the possibilities for increasing exports of textile industries products and food industries products are limited. In particular, their development is held back by the slow pace of agricultural development which supplies their raw materials. At the same time it is held back by increasing tariff and non-tariff barriers of developed capitalist countries. These tendencies have been strengthened by the crises of the 1970s and the growing unemployment within the developed capitalist countries.

It would seem that developing countries can gain from exports of new branches of manufacturing industry, such as engineering, metal processing, and chemicals. For their production possesses the most extensive direct and feedback relations and provides the strongest impulse to economic growth. International trade in the products of these industries, moreover, is continually growing.

Expanding exports of these goods, however, faces serious obstacles. Aside from the technico-economic backwardness of the developing countries themselves and the competition among them that results from creating similar types of production (such as petro-chemical enterprises in the Middle East) the corresponding facilities are often set up by transnational corporations that create basic advantages for themselves by deploying individual technological operations in different countries.

The influence of export-oriented industries on economic growth depends not only on the extent to which they are

integrated into the national reproduction mechanism but by methods employed in export activities. The chronic balance of payments deficit of many developing countries and their constant shortage of foreign exchange even for needs of reproduction often compels them to export commodities "at any price". Use is then made of export subsidies, full or partial exemption from transportation duties, multiple exchange rates, and sometimes direct administrative forms of compulsion. The resulting losses are compensated by increasing domestic prices or by reducing the profits of industrial enterprises.

This kind of "export-orientation" increases earnings of foreign exchange and makes it possible to temporarily reduce pressures on the balance of payments. But it also produces a redistribution of a part of the newly produced value in favour of the world economy.

Theoretically a country may still derive advantages under such an approach. For by selling products on the world market at prices that are below national value, it may then purchase products whose international value is substantially below their national level. [38] While losing when exporting a country may still gain when importing. But this requires that imports prevail whose international value is not merely below the national value, but lower by a sufficient amount to compensate for losses sustained through exports. In short such a compensation of losses requires a continual and careful balancing of the range of imported and exported products. But that requires an exceptionally high level of centralization of export and import operations. Either the state or a large monopoly grouping must periodically revise detailed plans of external trade operations that provide for a coordination of sales of products at prices below their national value with purchases of other products whose price is far below their national value. In actual practice there are numerous private exporters and importers in developing countries who are governed by considerations of short-term advantages. This makes such forms of balancing unlikely. One should also note that purchases of products on credit, especially in the context of tied forms of assistance, are usually effected at prices far above world market prices. As a result losses of these countries through external trade are generally a rule rather than an exception. [39]

The inappropriateness of juxtaposing export-oriented

and import-substituting types of industries concerns not only problems of economic effectiveness but also the actual interdependence of their development. Following state supported growth in import-substituting activities their saturation of domestic markets redirected them into exports. In its early post-independence years Pakistan relied very largely on imports in meeting its needs for cotton textiles. A rapid development of its domestic industry in the 1950s produced a situation in which in the 1960s it itself became a large exporter of yarn and cotton cloth.

Conversely, the development of export-oriented industries under a corresponding state policy eventually created adjoining import-substituting industries. In particular, Sri Lanka, which exported tea and imported everything that it needed for packing, in the 1950s began to produce plywood, lumber, and foil. In short once the state helps advance a certain level of industrial development a mutually complementary growth of export-oriented and import-substituting industries may take place.

The choice of import-substituting or export-oriented development strategies appears to produce different models of society. It is clear that in order to compete successfully on world markets modern equipment and production methods must be used whose parameters are comparable with those of developed countries. This requires substantial volumes of initially advanced capital and of capital investments for creating each new job. This is why the accelerated industrial construction primarily can be tackled through large capital investments while high capital-to-worker ratio greatly limits the size of the working class. Beyond this direct connections of such industries and often some of the feedback relations as well are effected through external markets. This creates a relatively smaller need for infrastructure and services so that the export sector may acquire the character of an enclave. The resulting social structure then includes a relatively narrow stratum of primarily large bourgeoisie and a relatively small proportion of modern industrial workers within the able-bodied population, as well as a relatively small proportion of persons engaged in the modern sector generally. Exceptions occur only in cases in which massive inflows of foreign capital produce high rates of development. This is shown by the experience of the developing countries of the Far East.

It was shown earlier that under import-substitution ap-

proaches to development, domestic prices move sharply away from their world level. This alone makes it possible to create enterprises that are comparatively small and possess high costs of production. This reduced the required volume of initially advanced capital as well as the volume of capital investments per job. In addition the great diversity of direct and feedback connections led to a greater development of infrastructures and services. That, in turn, produced a more proportional structure of the national bourgeoisie and a larger share of able-bodied population engaged in the modern sector.

Yet relatively pure examples of export-oriented development are provided only by Singapore and Hong Kong. A combination of import-substitution and export-orientation is found in other Eastern countries. This is why it is exceptionally difficult to trace the influence of a particular variant of development on social structure.

The crises of the 1970s and the reduced rates of economic growth in developed capitalist states that followed have played a substantial role in the further evolution of conceptions relating to approaches to industrial growth in developing countries. On the one hand, the crisis produced a relative reduction in world market demand for the output of developing countries. At the same time in spite of increasingly active efforts of developing countries for a restructuring of international economic relations in recent years developed capitalist countries have actually increased non-tariff barriers to imports of manufactured articles from developing countries. As a result possibilities for export-oriented development have come to be viewed quite pessimistically. These unfavourable conditions have produced a second wave of import-substitution, having made it advantageous to develop types of production activities that were earlier viewed as uneconomical. Even in South Korea, where export-oriented industries accounted for 38 per cent of increased industrial output while import-substituting industries accounted for only 2 per cent the center of gravity has been shifting in recent years to import substitution.[40]

This has led developing countries to place an increasing emphasis on cooperation with each other. This is conceived in terms of both such sub-regional groupings as ASEAN and specific agreements.[41] Industrial cooperation among developing countries represents a specific "hybrid" form of both import-substitution and export-orientation. Since the

newly created enterprises are designed to serve the markets of several countries this represents a widening of export-oriented production activities for the country within which the enterprise is located. Moreover, the resulting large markets also make it possible to initiate types of production activities that had been uneconomical for a single country. In such a sense their construction constitutes a new stage in import-substitution. It would thus appear that by allowing them to make use of natural and labour resources that were formerly unutilized the industrial cooperation of developing countries can provide an additional stimulus to their industrial development.

Taken by itself, however, like import-substitution or export-orientation such forms of cooperation cannot produce radical changes. Developing countries' dependence on the world market for the importation of complex and particularly science-intensive products and also for marketing their output is too great. It would seem that a realistic strategy for industrial development should recognize three factors. First, it should be based on a resource-oriented approach rather than on a market approach. For only an active utilization of a country's domestic material and labour resources can increase the effectiveness of national production activities and limit the redistribution of values in favour of the world capitalist economy. Second, it must be based on comprehensive approaches to the development of industries serving domestic and external markets. This, in turn, requires at the external level a continuation of the struggle against imperialism for a restructuring of the system of international economic relations and a widening of cooperation with socialist and developing countries. Internally it requires a deepening of socio-economic transformations that help increase the absorption capacity of domestic markets. Third, such a strategy should be based on limiting the influence on industrial growth of domestic market mechanisms and of the world capitalist economy. It would appear that only an approach of this type can ensure a transition of industrialization in developing countries to a self-reproducing process.

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It would seem that long-term strategies of economic development in Eastern countries would reflect as fully and

as consistently as possible the ruling class's own conceptions concerning those forms of long-term development that it views as most desirable. In practice, however, this is not the case. This is because class formation processes in developing countries are still incomplete. This is why both genetically and in its everyday activities their national bourgeoisie is closely linked to precapitalist exploiting classes. It also often continues to depend both politically and economically on foreign monopolies. Finally ruling classes must also consider existing levels of social tension within their countries and carry out measures that serve the interests of lower strata.

As a result actual development strategies represent various compromises between the interests of the national bourgeoisie, precapitalist exploiting classes, foreign monopolies and lower strata of the population. This produces situations in which such strategies contain propositions that are ambiguous and vague or else exclude approaches that may damage the interests of one of the parties.

In addition pressure from lower social strata, the influence of world socialism, and also the "demonstration effect" cause such strategies to include propositions that, depending on the internal situation, may exert a real or else a propagandist influence on the basic mass of the population. They include propositions concerning reducing inequalities in distributing national income, increases in the standards of living of lower classes of the population, overcoming unemployment, etc. Such declarations lend to strategy programmes the appearance of documents reflecting overall national strivings.

Because development strategies may contain many compromises or even propositions that contradict the interests of the ruling class enormous divergences develop between their formulation and practical implementation. The actual course of economic development matches a selected strategy only so long as the earlier balance of class and political forces continues to exist. As the balance of the forces changes there is a shift away from specific propositions of a strategy. This takes generally the form not of an official renunciation of some of its propositions, but of simply "forgetting" about them.

Finally, the uneven character of development in Eastern countries and their differentiation increasingly change the challenges that they face. In particular, the differences in

the tasks currently confronting Nepal and Singapore are evident, and it may be assumed that in the foreseeable future these differences will become qualitative differences.

But it should also be noted that the very concept of a "long-term development strategy" in Eastern countries is conventional to a certain degree. As rates of economic growth become more rapid changes take place in social as well as economic structure that produce not only shifts in the balance of class forces, but also in the interests of individual strata within a given class. This results in continual changes in the nature and substance of compromises between various classes and political forces. That in turn leads to revisions in long-term development strategies.

CHAPTER V

The Industrial Revolution: The Structure of Production and of Consumption

The preservation in Eastern countries of substantial layers of precapitalist formations results in the existence of several forms of reproduction, namely, natural or semi-natural reproduction, product exchange (quasi-commodity) reproduction and commodity exchange reproduction. While their proportions from one country to another vary, their coexistence and mutual interaction exert an enormous influence on all processes of economic growth.

The concept of "natural reproduction" implies that all needs for producers' and consumer goods are reproduced within the given economic unit. Today in its pure form this type of reproduction is found only in the most isolated and remote regions. In the overwhelming majority of Eastern countries it has become seminatural, primarily in agriculture,[1] where a substantial part of both productive inputs (seeds, organic fertilizers, cattle, buildings) and consumer expenditures (primarily food) are reproduced within the producers' own household. But such an internal economic reproduction of the personal consumption fund means that agricultural produce is also processed there (milling and baking).

Another form of reproduction rests on product exchange. It is generally characteristic of lower stages of social development that primary divisions of labour are established within clans, tribes, and communities in which such exchanges of labour services could only be effected through physical forms of compensation. Payments in kind for agricultural work and to village craftsmen continue to be widely practiced in Eastern countries. Frequently, moreover, such payments represent a specified share of the harvest rather than a fixed amount.[2]

Both these forms, which reflect either an absence of division of labour or else its very weak development underlay

traditional types of reproduction. Since in such cases there is a reproduction of the same instruments of labour and methods of production, expanded reproduction can only be achieved through a quantitative expansion in the use of land, instruments of labour, and objects of labour and by relying on additional inputs of living labour. The use of extensive methods results in a relatively constant product mix and volume of output per capita. Unchanging forms of reproduction also determine a conservative way of thinking by the immediate producers themselves. This, in turn, greatly impedes the introduction of innovations into prevailing reproduction systems.

Commodity-exchange reproduction is a third form of reproduction. In Eastern countries it possesses a number of specific characteristics. First, the volume of commodity values circulating on the domestic market exceeds the aggregate value of production of commodities. This is because in addition to commodities other products that are produced as use values also enter the market under the pressure of non-economic forms of compulsion. In short, the commodity exchange economy and commodity circulation extend beyond the sphere of production of commodities alone.[3] Secondly, the material composition of such a production differs substantially from that of the gross product of such societies. Since the greater part of their agricultural output is produced and consumed within the household economies of direct producers, only a small part enters the sphere of commodity circulation. In contrast almost all industrial products enter into commodity circulation. This is why the share of industrial output in such societies' market production is greater than its share in gross output.[4] Finally, there is a far greater partitioning of commodity production and circulation in Eastern countries. Because specific types of demand deriving from ethnic, national, religious, social and other differences are preserved, and because of the weakness of transportation linkages, their markets are highly stratified. Aside from national markets local markets continue to operate whose links to national markets are weak and frequently extend to only a few villages.

Production of commodities is a necessary condition for the development of capitalism, for a technical reequipment of economies, and ultimately for altering reproduction proportions as well. But the specific features that have

been noted in Eastern countries impede the full expression of elemental market laws even in that sphere. Accordingly, expanded reproduction itself encounters great difficulties and constraints.

The coexistence and mutual interaction of different types and forms of reproduction is reflected in the material composition of the social product. Given a substantial relative weight of natural and product exchange relations, transferred value is not large, while the value added by basic infrastructures is even smaller. Even in modern industries internal consumption for productive purposes is relatively modest. A part of the semi-manufactured goods is imported (in exchange for agricultural raw materials). In addition low income levels and the seasonal unemployment extend the scope of "industrial" activities of direct producers engaged in auxiliary forms of manufacturing of semi-manufactured factory goods (such as sewing clothing from factory cloth). Beyond this the relative weight of light and of food industries is comparatively large in that group of countries, while these industries are marked by an intersectoral division of labour that is lower than in heavy industry. This is why their aggregate social product is not much larger than the gross domestic product.

In addition even when the nature of production remains unchanged the development of monetary and commodity relations may produce a leap-like increase in the aggregate social product. This often exerts a destabilizing influence on developing economies and may become a factor creating sudden shortages of transportation or electrical energy as well as problems in price regulations, credit, and monetary circulation. This was clearly evident in the petroleum-exporting countries following price increases in the early 1970s.

As for the gross social product both the relative share and absolute magnitude of one of its most important components in developing countries, namely, amortization, are modest in comparison with developed countries.[5] The volume of accumulated fixed assets is relatively modest in developing countries. They largely consist of relatively simple and inexpensive means of production of the traditional type. In view of the low cost of labour power in these states, the concept of "technical obsolescence" is by no means familiar in all branches, and machines frequently continue to be operated until they are fully worn out.

The net product accumulation rate in Eastern countries has tangibly risen since their independence and somewhat exceeds corresponding levels in imperialist states. Yet their material structure continues to be highly specific. In segments engaged in seminatural and product exchange types of reproduction accumulation takes the form of the additions of traditional means of production. In the commodity segments of national economies it refers primarily to stocks of food and plant and mineral raw materials and their effective realization therefore had to be mediated by the world market.

As modest shares of depreciation charges and relatively low accumulation rates continued until the early 1970s, the share of the personal consumption fund within the gross product was much larger than in developed countries. As the correlation of personal consumption funds and productive consumption funds, their material structure and dynamics changed in the process of economic development they tended to exert a direct influence on the basic parameters of growth.

Productive Consumption Fund

Following their achievement of political independence, a characteristic feature of Eastern countries was a priority rate of growth of their productive consumption fund. Above all this was associated with high rates of industrial growth, which were 1.5 times higher than those for overall national economic growth.[6] Since the share of internal productive consumption in modern industry is nearly twice that of other sectors, priority rates of industrial growth also induced a rapid growth in productive consumption. In addition, the creation of modern industry characterized by high levels of capital-intensity was accompanied by growing accumulation needs, as well as by increasing depreciation charges. In agriculture the "green revolution" also increased productive consumption by encouraging a wider use of industrial objects of labour. Industrial development and the modernization of agriculture also required the construction of adequate basic and social infrastructure.

As a result by the early 1970s the productive consumption fund began to prevail within the aggregate social product of the most developed Eastern countries. This reflected the beginnings of an overcoming of the division of labour pattern that had been imposed in the colonial period. This substan-

tial rise in the relative weight of the productive consumption fund also increased its influence on the direction of social reproduction as well as its rate and proportions.

Yet the productive consumption fund is quite heterogeneous in Eastern countries, and this increased, moreover, in the course of economic development. It has already been noted that several types of reproduction coexist in these countries. This includes the reproduction of the productive consumption fund. Since there are generally mixed economies in these countries within which capitalist and precapitalist structures interact one generally finds reproduction in precapitalist structures approaching in its proportions simple reproduction, and expanded reproduction within the capitalist structure. This is reflected both in the rates and proportions of reproduction of the productive consumption fund within each of these structures.

Different forms of the reproduction of the productive consumption fund also coexist in that group of countries. It is commodity-oriented within the capitalist structure and is largely seminatural or product-exchange-oriented in precapitalist structures. Natural and product-exchange-oriented relations in the reproduction of productive consumption funds are found especially in agriculture, small-scale industry, and construction activities in agriculture.

Another characteristic trait of Eastern countries is the existence of sharp differences in the material structure of their productive consumption fund. As at an early stage of development of Western European countries there are partly autonomous intrasectoral reproduction cycles for means of production, particularly instruments of labour. Indeed, the instruments of labour that are applied in industry, mechanized transportation and communications are activated by industrial energy, while in agriculture and small-scale industry they are activated by human or else animal muscular energy.

While a part of the means of production of Eastern countries is reproduced on a national basis, another is reproduced on the world market. In the colonial period instruments of labour were reproduced primarily through the world market while objects of labour were reproduced primarily within the country itself. The process of development alters this situation. Instruments of labour begin to be produced domestically while the need for new objects of labour and for energy is met through external markets.

Finally, an equally important role is played by intrasectoral distinctions in Eastern countries that result from the multi-structural nature of each economic sector. In industry, for example, one may distinguish auxiliary household industries and crafts, and capitalist manual forms of production and mechanized small-scale industries as well as modern extraction and manufacturing industries. Each of these sectoral subdivisions may possess its own specific production technology. In short, Eastern countries display both a vertical (inter-sectoral) and a horizontal (intrasectoral) stratification of their productive consumption fund.

In terms of the means of production that are employed the productive consumption fund of Eastern countries may be divided into three large groups: traditional (wooden plough, hoe, the instruments employed by artisans); means of production employed in the manual production stage of capitalism (agricultural instruments driven by draft animals, manually operated weaving devices and lathes); and modern means of production in the form of industrial or agricultural machines. Such a classification, of course, is relatively arbitrary. For there are significant numbers of intermediate forms of equipment. Beyond this today traditional or manually operated instruments may be combined with modern objects of labour (mineral fertilizers, synthetic or artificial materials). Third, the group of "modern means of production" is itself quite wide. It includes both the latest machinery and obsolete machinery that were produced several decades earlier. Still an analysis of the proposed grouping of means of production will make it possible to establish more precisely the specific characteristics of reproduction processes in Eastern countries.

As capitalism developed in the West, and as lower structures disintegrated, there was first a transition from traditional means of production to manual manufacturing instruments and then to machines. This corresponded to gradually increasing levels of accumulation, changes in production engineering, and increased labour skills. In Eastern countries, on the other hand, this kind of clear sequence in replacing the types of equipment being employed is the exception rather than the rule. For the possibility of a transition to the next technical level depends on a large number of such heterogeneous factors as increasing accumulation rates, the development of money-commodity relations, the widening of markets, possibilities for the productive realization

of capital, and the current state of the labour market.

In developing countries traditional means of production are largely employed in the lower, precapitalist structures, especially in agriculture. It has already been noted that a characteristic feature of Asian countries is the prevalence of small-scale peasant land use. In the mid-1970s farms possessing less than 2 ha ranged from 41 per cent of the total in the Philippines to 94 per cent in South Korea.[7] Beyond this, the association of the greater part of population growth with agriculture results in a further partitioning of land, an increased number of small and very small farm units, and an increase in the size of a family whose livelihood depends on a given farm and parcel of land. This further enhanced the consumption-oriented character of small and very small farm units since most of their output had to serve the personal consumption of direct producers' families.

Such farms are in a permanent state of unstable stagnation equilibrium that is periodically disrupted by natural disasters, market fluctuations and illnesses of heads of families. To reestablish their equilibrium they must repeatedly turn to money lenders and to the sale of labour power. The need to repay usurious rates of interest and the irregular character of auxiliary forms of employment produce a chronic state of deficit within that group of farms (a constant excess of expenditures over revenues). This results in an extremely limited share in the gross product that can be assigned to the reproduction of the productive consumption fund as well as in major instabilities in reproduction.

Both the preservation of natural relations on a substantial scale and the limited volume of gross product available for the reproduction of the productive consumption fund result in extremely slow changes in that fund's material and technological structure. In its turn its extremely limited flexibility, particularly with regard to instruments of labour, determines a preservation of a close association of agriculture with village crafts serving its production needs. But the established character of traditional demand for instruments of agricultural labour results in routine approaches to means of production, equipment, and methods of production of the crafts themselves. Thus it is only by noting the close interrelationships of traditional agriculture and village crafts that one can explain the unchanging character of instruments and methods of labour in precapitalist formations.

In spite of the stagnation and even deteriorating condi-

tions of reproduction of small and very small farms their ruin and separation from means of production is a limited phenomenon now. Above all growing visible forms of unemployment and difficulties of finding alternative spheres of employment compel small-scale producers to exert all possible efforts to remain on their land, even when it provides a declining income for each family member. In addition for the present government policies in support of relatively high domestic prices for agricultural produce (in view of shortages of the foreign exchange that would be needed to import food, or else of policies to increase agricultural production and maintain social stability) provide advantages to small-scale agricultural producers, whose own preservation contributes to the continued viability of village craftsmen.

It seems likely that under the present socio-economic situation the use of traditional instruments of labour in pre-capitalist structures will also continue for the foreseeable future. Existing investment, technical, organizational and other barriers that separate direct producers from modern means of production are too great. In addition a growing agrarian overpopulation and visible unemployment keep the price of labour power at a level that is so low that it makes it possible to receive income even when using traditional instruments of labour.

In Eastern countries the means of production of the age of manual manufacturing are employed primarily by the upper strata of small-scale producers and the lower strata of capitalist structures. In the economic literature of other countries authors have often viewed a wider use of such means of production as a way to increase overall labour productivity and for expanding employment. But in Eastern countries an entire complex of contradictory factors defines the boundaries that constrain the use of manufactory equipment, i.e. equipment used in manual factory production.

Possibilities for utilizing manufactory equipment in agriculture are relatively limited, for this requires a corresponding increase in the number of draft animals, improvements in their breed, and an expansion in grazing lands and in the cultivation of fodder crops. But most Eastern countries have been agricultural civilizations since ancient times, and on the whole lands that are suitable for cultivation are already in use. At the same time their level of productivity makes it impossible to extend the cultivation of fodder crops for this may reduce the production of food. Moreover,

high food prices produce increasingly high fodder prices and hence high costs in raising cattle. This is precisely why the number of draft animals has been declining in a number of countries in recent years. In short, with the exception of several countries in Western Asia and in Southeast Asia that possess unused lands and pastures, agriculture's energy problems cannot be resolved by increasing local populations of draft animals. This in turn defines relatively rigorous constraint on the use of manufactory equipment in agriculture. [8]

Clearly the lower, most numerous group among the peasantry possess neither the financial means nor the land resources that a transition from traditional equipment to manufactory equipment would require. For the higher, most wealthy group of agricultural producers its use under modern conditions is insufficiently profitable, for it does not produce a substantial acceleration of the entire field activities cycle. In tropical and subtropical climates, on the other hand, a reduction of time required by field work makes it possible to shift to multiple harvests. Accordingly, the upper stratum of agricultural producers seek to shift directly to modern methods of production.

Thus the use of manufactory equipment is increasingly concentrated among the upper strata of the small-scale commodity structure, that is among relatively solid middle-size farms. But in an environment in which capitalism is developing increasingly rapidly that group within the peasantry is becoming not so clear-cut. A small part of its numbers join the ranks of capitalist entrepreneurs while others join the peasantry's lower strata. Accordingly, possibilities for applying manufactory equipment are declining.

There are greater possibilities for employing manual factory production equipment in industry. Above all, the growth in domestic prices for industrial goods by comparison with the world market prices makes it possible to operate enterprises possessing substantially higher costs of production. Secondly, the generally low level of workers' skills defines a lower value of labour power, while increasing unemployment causes the price of labour to fall below its value. Since there are no legislative constraints on the exploitation of workers in the lower forms of industry both factors reduce the actual level of wages. But low wages operate as a basis for the use of obsolete technology. Third, in a number of Eastern countries, particularly Moslem ones, a growing na-

tionalism and efforts to revive old traditions have produced a growing demand for certain traditional types of consumer goods that can only be produced through traditional or semi-traditional methods. Fourth, a shift to the use of factory produced semi-manufactured goods and a transformation of manual manufacturing into finishing shops of factories, as it were, have also made it possible to reduce production costs. As a result the competitive potential of manual factory production has increased in certain branches both in relation to traditional crafts and to machine-based factories. It is apparently a combination of all these factors that has produced a substantial growth of manual factory production in Eastern countries following their independence.

Possibilities for employing equipment of the manufactory type are at the same time limited by the characteristics of domestic markets. For aside from overall national types of demand there are also specific types of demand for particular types of commodities on the part of local, national, ethnic and other groups. It is obvious that manual factory production cannot compete on national markets since machine-based factories are especially effective in mass-producing standardized goods. Nor can manual factory production displace traditional crafts when there is a very limited market, much less insert itself in product exchange linkages between crafts and agriculture where they continue to exist.

The remaining possible sphere of manufactory equipment applications is thus relatively narrow. For not only do all factors characterizing the position of lower structures impede the introduction of such means of production but the expansion of national markets for individual types of commodities replaces non-machine factory production. There are accordingly no grounds for expecting that the use of this type of equipment will expand. Instead, it will be displaced by machine-based factory production in some branches while in others its output will temporarily increase by displacing craft products.

In short the logic of the internal development of lower structures suggests that possibilities that they may shift from traditional tools first to manufactory equipment and then to the use of modern equipment are quite limited. But if one takes into account the changes in the overall economic situation that have taken place in Eastern countries following their independence that situation is seen to be more complex and more contradictory.

Above all the role of the state in all types of small-scale production has been increasing. In particular, V. G. Rastyannikov observes that "under the pressure of insistent needs for overcoming economic and social disproportions the state is also increasingly beginning to perform constructive functions in the sphere of traditional economy, relying both on value-oriented instruments (even though corresponding possibilities may be quite limited because of the weak development of commodity-exchange production and exchange in that sphere) and increasingly on non-value instruments." [9]

In nearly all Eastern countries the state has created systems of cooperative banks, marketing cooperatives, agencies to support small-scale agricultural producers, and centers for serving small-scale industries. It has relied on these arrangements in making available credits for the purchase of new means of production or the construction of irrigation facilities, and for distributing mineral fertilizers, chemicals, and high quality seeds. Such systems often operate on a subsidized basis. [10]

But one should also note major differences in the emphasis that different Eastern countries place on particular activities. While in India and Sri Lanka the state did indeed seek to provide support, even though not always successfully, to small-scale and marginal producers, in most other countries that support was given primarily to the upper strata of small-scale commodity production structure and to lower strata of capitalist structure with a view to increasing marketable products. [11]

But the involvement of small-scale producers in credit relations (whether in terms of money or of commodities) required that all relevant calculations of loan recipients be undertaken by specific credit institutions. As a result all direct producers receiving credit became involved in a credit system and all individual settlements became merely a part of a general circulation and reproduction of the country's money capital, as means that were not at all capital were transformed in capital. Because in such cases an initial impulse to that process was given by state-capitalist measures the rate of involvement of small-scale producers into an integrated circulation of money capital exceeded their own actual capitalist transformation and that of their technical basis.

Because the involvement of small-scale producers into an integrated cycle of the reproduction of money capital is cur-

rently effected predominantly through state institutions it does not always result in a direct subordination of small-scale producers to large-scale capital. This produces relatively favourable prospects for their further development and partly for their greater autonomy.[12] However, more favourable prospects result in different consequences for individual forms of small-scale production.

For capitalist forms of small-scale production involvement into an integrated circulation of money capital (as soon as this is not accompanied by uncompensated extractions of net product in favour of large-scale capital and of monopoly capital) constitutes an improvement in general conditions of reproduction. It is on such a basis that there is a growth in mechanization and improvements in the technological and organizational level of production activities that create a potential for unification of the productive consumption fund.

Conversely, the state's support and involvement through government institutions in the integrated circulation of money capital of precapitalist and early capitalist forms of small-scale production partly limits their exploitation by merchant and usurious capital and thus increases their ability to withstand competitive pressures from all forms of mechanized production. This in turn leads to a preservation of existing methods of production (both socio-economic and technical) and hence of disintegration processes within the productive consumption fund. But this type of development makes possible a more rapid differentiation of producers and hence a relatively radical future reconstruction of that entire sphere. Naturally, a realization of these possibilities depends on a relatively stable continuation of present economic policy.

State interference has also produced certain shifts in the emergence of an integrated reproduction cycle for physical forms of capital, i.e. tendencies have appeared towards a unification of the productive consumption fund within the overall economy. Extensive state infrastructure construction activities and subsidies for purchases of industrial goods have resulted in a tangible increase in the consumption of factory-produced objects of labour within precapitalist and early capitalist forms of production including mineral fertilizers, insecticides, metals, and electric power. A shift to the use of factory-produced objects of labour in agriculture has made possible to increase the productivity of land as

well as labour productivity in industry and to often improve product quality.

A tendency to utilize modern means of production—instruments of labour—in lower structures is expressing itself much more modestly. [13] Since these structures cannot acquire and master the use of modern instruments of labour without assistance shifts of that type take place in only two cases. First, when the state organizes special machine pools for serving agriculture or so-called "service workshops" in centers in which lower forms of non-agricultural production are concentrated. And second, when big capital begins to serve small-scale producers by providing equipment either to reduce the idleness of equipment or as a means of additional exploitation. Aside from individual exceptions these methods have not yet been widely applied in developing Eastern countries.

Following political independence the rate at which modern means of production were introduced quickened perceptibly in practically all Eastern countries, at first primarily in industry, transportation and communications but after the mid-1960s in agriculture, construction activities and services as well. From a socio-economic point of view this was due to the emergence and subsequent intensive growth of state capitalist activities and also to the accelerated development of local capitalism in most Eastern countries. From an economic point of view it was associated with a further involvement of developing countries into the international division of labour and an expanding domestic market.

As the rate of technical reequipment of the national economies of Eastern countries quickened the magnitude and relative importance of that segment of modern means of production within the productive consumption fund began to increase. In developing countries, however, that segment acquired a number of specific traits that distinguish it from that of developed countries.

Above all, a comprehensive mechanization of production processes is not yet characteristic of Eastern countries. In agriculture mechanization extends primarily to operations that precede sowing (except in Turkey, Algeria, and partly Iraq). [14] Even in modern industries in addition to machines wide use may be made of living labour in basic production operations as well as in auxiliary ones. High investment barriers and the low cost of unskilled labour power serve in effect to keep this situation alive. Beyond this a deliber-

ate reduction in the technological level has become one of the goals of official policy. The governments of a number of Eastern countries are often compelled to adopt special measures to avoid comprehensive mechanization so as to prevent increased unemployment. [15]

After the mid-1960s, under the influence of market pressures and state programmes two groups of enterprises began to develop in industry in most Eastern countries, namely, large enterprises largely equipped with modern imported machinery, and small enterprises employing either locally produced or else relatively obsolete imported equipment. The latter usually employ one or two machines that perform either the basic or else the most complex operations, while all others are performed manually. That form of industrial organization constitutes a specific type of link between modern industry and non-mechanized industry. In recent decades in such countries as India, Thailand, and Indonesia the latter has developed more rapidly than the former.

The lower technological level in the modern productive forces sector of Eastern countries results in a different value structure of commodities. For the share of newly produced value is then higher and that of transferred value is lower. Within transferred values, moreover, a larger share is associated with objects of labour rather than with instruments of labour. But this also means that within the modern part of the productive consumption fund of Eastern countries the share of objects of labour is higher and that of instruments of labour is lower than in developed countries at corresponding stages of development.

Moreover the part of the productive consumption fund represented by the modern means of production is characterized by an increased heterogeneity of the material structure. In particular, new branches of production constantly emerge together with new types of equipment and objects of labour. At the same time the existent stratification of domestic markets and the low cost of unskilled labour tends to preserve relatively small enterprises equipped with obsolete equipment and employing technological processes that were abandoned fifty years ago in developed countries. This is especially true of those branches of the textile industry and of the food industry that were established in the colonial period.

In addition both the striving of developing countries to take advantage of inter-imperialist contradictions and the

activities of foreign monopolies often result in a situation in which there are many enterprises of the same type that employ equipment produced in different countries and apply different technological processes. This lends an additional element of fragmentation to their productive consumption fund that makes it more difficult to develop production linkages between heterogeneous production units.

It has already been noted that in the colonial period elements of the fixed capital of modern productive forces were reproduced largely through external economic linkages, while the reproduction of circulating capital proceeded largely on a domestic basis. This began to change in the course of industrialization. The priority rate of development of final product industries produced a situation in which Eastern countries themselves began to provide a part of their fixed capital (especially India, Turkey and Singapore), while their dependence on imports of circulating capital increased. This resulted in a paradox: while earlier Eastern countries could carry out simple reproduction on an internal basis while a transition to expanded reproduction required external economic relations, today even simple reproduction depends on external markets.

The productive consumption fund of Eastern countries is thus experiencing a relatively complex and contradictory evolution. While in today's developed countries traditional production methods were first displaced by manual factory production methods and then by machine-based production, in Eastern countries for a variety of reasons manual factory production methods were used in limited numbers before being displaced by machine-based production. There is thus a simultaneous absolute increase at two poles with regard to instruments of labour, namely, the traditional one (in terms of the quantity of equipment being used and the number of persons employing it) and machines (in terms of the volume of output). In that sense one may say that as modern means of labour are being introduced there is also a disintegration of the national productive consumption fund.

Yet there is also a clear tendency towards a partial universalization of the productive consumption fund. Above all, more rapid rates of development of capitalist production in all economic sectors and the resulting greater division of labour and the employment of more effective means of production cause the share of the productive consumption fund's modern segment to grow more rapidly than does the gross

social product. This is accompanied by two processes. A process of unification and integration takes place in capitalist production with regard to both means of labour and objects of labour. The use of raw materials and industrially produced semi-manufactured goods in light industry and in construction activities increases as does the share of industry in agriculture's reproduction expenditures. Another process is an integration of capitalist production with precapitalist production through deliveries to precapitalist units of factory-produced objects of labour (metals, yarn, plastics, mineral fertilizers, insecticides).

In spite of the great importance of integration processes between capitalist and precapitalist forms of economic activity their limited scope should also be kept in mind. Such integration processes are extremely uneven in particular localities, in specific structures, and in other respects. They are generally more evident in countries with relatively developed capitalist structure (either state capitalism or private capitalism). In such countries one sees a relatively significant use of factory-produced objects of labour in small-scale production activities. In less developed countries where the small-scale production structure is still emerging integration processes are only beginning. Forms of integration that are based on objects of labour, moreover, reduce the framework of universalization. For in concert with the use of traditional instruments they can only use a very limited range of modern objects of labour. At the same time a shift to the use of factory-produced objects of labour not only increases the "stability" of small-scale production but also delays a shift to the use of modern machine equipment. Finally, the integration of the productive consumption fund proceeds in a large measure through external economic linkages. The dependence of the productive consumption fund on external markets, which was initially unavoidable subsequently begins to reproduce itself, thus impeding the development of corresponding branches of the national economy. All these factors produce a significant slowing of integration processes within the productive consumption fund. But then it would appear that without substantial socio-economic transformations and without altering the character of linkages with external markets that process cannot be brought to its logical conclusion.

Personal Consumption Fund

At the time when Eastern countries achieved political independence 85 to 90 per cent of their gross social product was expended on the reproduction of their personal consumption fund. But low labour productivity and a low level of per capita income caused basic necessities and especially food to play a dominant role in the composition of personal consumption. Expenditures on all other needs, such as clothing, shoes and housing represented only one-fourth to two-fifths of the family budget. At the same time personal consumption was more closely linked to modern industry than productive consumption, since even the lowest income groups acquired a minimal quantity of factory products.

The higher pace of economic development that was observed in the overwhelming majority of Eastern countries following their independence exerted a direct influence on both the relative and absolute magnitude of their personal consumption fund. On the one hand rising accumulation rates in relation to national income and a growth in material wealth together with an increase in the share of depreciation charges within the gross product produced a relative decline in the ratio of personal consumption funds to gross product. At the same time a higher capital-labour ratio and labour productivity increased national incomes, and that, other conditions being equal (i.e. providing that accumulation did not absorb their entire increment), increased their personal consumption funds in absolute terms. This, in turn created the conditions that were needed to change its composition.

While only increased incomes provide a basis for changes in the composition of consumption, the latter is governed by other factors as well. In addition to economic and socio-economic factors consumption is also influenced by ethnic, religious, and psychological factors, among others. At similar income levels, in short, the composition of consumption may differ, depending on concrete conditions.

It would appear that since independence the following basic factors contributed to changes in the composition of consumption. First, the composition of consumption in developing countries was initially formed in their colonial period when it reflected an interaction of productive forces both within the metropolis and the world economy as well as in the colonies themselves. Since the productive forces of the met-

ropolises were more developed at that time and changed more rapidly, the composition of consumption in colonies changed more rapidly than did local production activities. Following their achievement of political independence and the transformation of former colonies into an autonomous part of the world economy that interaction between national consumption patterns and world productive forces was disrupted (through protectionist measures of the state or shortages of foreign exchange). An adaptation of national consumption patterns to both internal effective demand and external standards often ceased to be possible. This explains the emergence of a certain type of autonomy of local consumption patterns in relation to national production that takes the form of priority rates of growth in demand for commodities that still cannot be supplied by national industries.

Beyond this a growth in urban population and literacy and the development of mass media help disseminate knowledge of new commodities, of standards of consumption abroad and among local privileged classes, and of changes in fashion among the widest masses of the population. These factors produce changes in the composition of consumption of various income groups.

In addition a growing influence on the overall composition of consumption as well as that of individual social strata is exerted by activities of the state. It seems that numerous, even though not always coordinated measures by the state have changed the consumption of individual commodity groups and have encouraged the consumption of new commodities and services, particularly among the lower social strata.

Indeed, increases in price for manufactured goods following independence and the preservation of relatively low prices for agricultural produce constituted a redistribution of income in favour of industry. This implied a decline in the consumption of manufactured goods by lower population strata. Conversely, changes in parity of prices in favour of agriculture after the mid-1960s would have led to a decline in food consumption by wage labour if demand for manufactured goods had remained constant. In fact, however, the social dangers of such a situation in view of underconsumption by a substantial part of the population led ruling classes to introduce subsidies to sales of food to lower strata. It may be assumed that such subsidies increase effective

demand for manufactured goods or else prevent its decline. In addition differences in tariff duties and excise taxes as well as in subsidies alter relative proportions of effective demand for food and non-food products.

Aside from altering the relative demand for particular commodities and commodity groups measures adopted by the state also resulted in increasing levels of consumption of certain types of commodities. In particular the introduction of free elementary education with subsidized or else free textbooks and school stationery and the organization of health services for certain categories of workers and civil servants with subsidized medicines caused lower strata of the population to consume new commodities that they could not have acquired without state support. This type of state activity acquired a particular scope in petroleum-exporting Arab countries.

At the same time the personal consumption funds of Eastern countries continue to show a number of stable characteristics. Above all this is due to a relatively slow increase in labour productivity and hence in national income together with an increasingly rapid growth in population. Between 1950 and 1978 the average yearly increment in gross product (in constant prices) was 4.9 per cent. More specifically that figure was 6.2 per cent in countries of North Africa and the Middle East and 4.3 per cent in South and Southeast Asia. Because of an increasingly rapid population growth the average yearly increment in income per capita was only 2.6 per cent (3.4 per cent in countries of North Africa and the Middle East and 2.1 per cent in South and Southeast Asia).[16] If one keeps in mind that the accumulation rate has doubled in these two groups of countries, that they have begun to export capital, and also the enormous growth in military expenditures in the countries of the Middle East, the real growth in consumer expenditures per capita will be less than 1.55 per cent in South and Southeast Asia and less than 2 per cent in the Middle East.

Because of the "demographic explosion" in Eastern countries nearly one half of the national income that was directed at widening the fund of personal consumption was used to maintain current levels of consumption. It is evident that such an allocation of increments in national income preserved the composition of consumption. Given their initial low level, increases in consumption expenditures per capita by 1.5 times in South and Southeast Asia and 1.75 times in the

Middle East over a 28-year period did not create large possibilities for radical changes and a modernization of the consumption composition, although these possibilities were greater in countries of the Middle East than in other Eastern countries.

Still another factor should be taken into consideration: since independence increases in labour productivity in developing countries occurred primarily in modern industry, transportation, communications and construction. That increment was minimal in agriculture, in spite of the "green revolution". A. I. Dinkevich estimates that between 1950 and 1970 output per worker in agriculture in Eastern countries rose from 145 to 170 dollars per year, while in industry, transportation, and construction it rose from 430 to 800 dollars per year.[17] In short, labour productivity in industry, transportation and communications grew 5 times more rapidly than in agriculture. Until the mid-1960s, moreover, there was a continual redistribution of means from villages to cities through price mechanisms, taxes, and usurious interest. A much larger share of overall national resources than of population was thus concentrated in cities. This meant that increments in income and associated consumption expenditures were largely specific to the urban population. In villages, on the other hand, where the basic mass of the population continues to be concentrated that increment was negligible until the mid-1960s. Accordingly changes in the composition of consumption took place primarily in cities. It is only in the 1970s that it began to change in villages.

Another main reason for the slow increase in the personal consumption fund is the wide use of natural relations in its reproduction. From a socio-economic point of view their preservation has been encouraged by the same factors as in the case of the productive consumption fund. In some countries and regions a certain role appears to be also played among other things by insufficiently developed transportation services as well as local customs and traditions. From a technical point of view natural forms of consumption are encouraged by the relative simplicity of the processes that transform agricultural raw materials into final products. As a result even in the recent decade the share of output consumed directly varied from one-fifth to one-half of the entire consumption fund (except for Hong Kong and Singapore).

Yet natural forms of personal consumption in Eastern

countries concern different strata than do natural forms of productive consumption. Studies in the economic history of agriculture have shown that the greatest measure of marketability of personal consumption is found among the higher and lower groups of the agricultural population, while natural forms of consumption are primarily characteristic of middle groups. Before the first round of agrarian reforms that objective principle was also apparent in Eastern countries.

Indeed in most Eastern countries large landowners were generally absentee landlords. As a rule they did not engage in farming themselves and rented land instead while living in the city. Their own consumption accordingly was largely mediated by markets. It is mostly the stratum of traditional exploiting classes that was affected by agrarian reforms. Following the reforms former small-scale landlords, wealthy peasants, and former merchants or money lenders became the villages' largest landowners. These were the persons that are described in Western economic literature as the rural elite. Together with relatively stable middle-level farmers they also engage most in natural forms of consumption. For not only do they possess enough land to provide a sufficient assortment of food to their families but there are also the strata who adhere to traditions in order to preserve their social prestige.

As for the lower strata of the rural population—peasants possessing little land, small-scale tenants and agricultural workers—the land that they cultivate cannot meet the needs of their families throughout the year. [18] They must also sell a part of their output to settle with the state or else with money lenders. They must therefore augment their incomes by selling their labour or accepting additional work. This defines a relatively high degree of their linkage with the market. While they do practice natural forms of consumption to some extent in food, fuel and other products their slow rate of change in the composition of consumption is attributable primarily to their very low level of income.

Until the mid-1960s the gradual change in price parity to the disadvantage of agriculture appears to have undermined the natural character of consumption. For under the pressure of taxes, rents, high interest rates, and increasing prices for industrial goods direct producers had to sell an increasing part of their product even when this required reducing personal consumption. Changes in parity of prices after the sec-

ond half of the 1960s and also the "green revolution" produced highly uneven shifts in the natural consumption of various agrarian strata. The involvement of upper strata in the "green revolution" led to increased specialization and a decline in the cultivation of secondary and auxiliary crops. This made it more difficult to meet varied food requirements within farms. At the same time growing income levels made it possible to extend the scope of market linkages.

Growing production specialization and increased food prices made a shift from payment in kind to payment in money to agricultural workers both more difficult and more advantageous. This is why regions experiencing a "green revolution" witnessed a shift of workers to monetary payments—a development that further extended their linkage with the market. Conversely, for the lower strata of the peasantry changes in parity of prices encouraged an extension of natural forms of consumption, for the new prices allowed a smaller share of their output to meet their obligations and also acquire a minimum of industrial goods.

Aside from the erosion of natural relations "from within" their share in the economy also declined. This was due to the priority rate of growth of industry and to the fact that its gross output gradually constituted an increasing share of social output and hence of consumption. [19]

Finally, numerous traditional, religious and other prohibitions and limitations are widely practiced in Eastern countries that influence the standards and composition of personal consumption in many ways. They are frequently applied to the consumption of conventional modern products as well. In Northern India, for example, where tradition prohibits untouchables to ride on horseback, that practice was also transferred to riding bicycles. This naturally limits their acquisition by untouchables. By influencing the behaviour of consumers and hence the direction of effective demand such constraints often hold back the modernization of consumption. Field studies indicate that they erode relatively quickly in large industrial cities. But that process is only beginning in rural areas and small towns.

Interactions between these contradictory, conserving, and modernizing factors have produced a change in personal consumption funds that are both slow and somewhat arbitrary. Above all, a characteristic feature of Eastern countries is a very high and relatively stable proportion of expenditures on food. In the mid-1970s corresponding expenditures ranged

from one-third (Singapore) to three-fourths (Bangladesh) of the population's entire budget. Because of low income levels, moreover, the cheapest types of food prevail—primarily grain, which in Asia meets a major part of the population's needs for calories.

Yet, in spite of the large share of food in personal consumption funds a characteristic feature of nearly all Asian countries is a substantial undernourishment. In terms of the average quantity of calories consumed they do not even meet the biological minimum of 2,300 calories per day. The resulting high demand elasticity for food attains values of 0.6 to 0.8.

While since the mid-1960s the share of expenditures on food within total consumer expenditures has begun to decline, the depth and intensity of such shifts vary greatly from country to country. In petroleum-exporting Arab countries and also in states marked by high rates of economic growth (Singapore, Taiwan, etc.) declines in total expenditures on food were accompanied by changes in the composition of consumption as purchases of foods of greater caloric content increased. In the East's largest countries (India, Pakistan, Indonesia, Egypt), declines in expenditures on food were minimal. Given the relatively modest growth in food production and importation per capita it is evident that even by the late 1970s declines in food expenditures in these countries largely reflected an increased divergence in the volume and composition of consumption of urban and rural populations and between higher and lower income strata rather than a general increase in living standards. Finally, in the least developed countries (Bangladesh, Nepal, Yemen Arab Republic) the share and composition of the food components of personal consumption funds are unlikely to have undergone any significant change.

The dominant role of food, a wide reliance on natural relations, and low income levels served to limit the consumption of industrially processed products. A substantial part of agricultural output continues to be consumed in "raw" form, i.e. to be processed within households. But even agricultural produce that are processed through industrial methods often enter into consumption as semi-processed goods (e.g. flour, cloth) rather than as final products. For lower income strata spend their means as thrifty as possible. Both these factors mainly explain the reason behind a relatively modest development of food industry in most Eastern coun-

tries even though the high share of food in personal consumption funds might suggest that it should dominate in the structure of manufacturing industry.

At the same time the share of food entering consumption in industrially processed form has grown continuously during the last 15 to 20 years. This is explained both by a growing urban population which relies less on natural forms of consumption and possesses a somewhat higher level of income, and the increasing importance of food imports, which generally enter into consumption in an industrially processed form.

The high share of food in personal consumption funds limits demand for products of light industry. Yet in spite of the modest share of the industry's group of products (clothing, shoes, furniture) in personal consumption funds it is marked by enormous variety. It includes the production of several types of commodities: a) traditional commodities produced through craft methods from plant and animal raw materials and therefore possessing few links with modern industry; b) traditional products like those produced by textile industry; c) new products made from artificial and various synthetic materials which are gaining in popularity. Whenever such products are less expensive than traditional ones, and are also more wear-resistant they easily displace traditional products. A vivid example is that of light rubber slippers which have become a basic type of footwear in most Eastern countries during the past 10 or 15 years. In addition consumer durables are playing a growing role within personal consumption funds.

Thus, following political independence there are measurable changes within the personal consumption fund of Eastern countries—a decline in the share of food expenditures, a greater product mix of food and especially a marked intensification in reciprocal influences between personal consumption and modern industry. Yet, it also retained a diversity of such relatively stable characteristics as a high share of non-industrially processed goods in consumption, an exceptionally partitioned product mix in which absolute magnitudes of consumption of each product per capita, especially new ones, are not high. This resulted in a preservation of heterogeneity and non-standard nature of the material composition of personal consumption. In this respect the merging of the raw materials base of personal consumption funds and productive consumption funds is still in its very early stages.

The numerous contradictions that the development of capitalism and economic growth generate within the composition of consumption are further intensified by the unequal character of income distribution which is much more pronounced than in developed capitalist countries. In particular, experts in the International Bank for Reconstruction and Development have estimated that in the late 1960s and the early 1970s the lowest population strata in Asian countries (20 per cent) received 5.8 per cent of total income, the next 20 per cent received 8.7 per cent, the next 20 per cent—12 per cent, then—17.7 per cent, while the upper 15 per cent received 30 per cent, and the highest 5 per cent received 25.8 per cent (of total income).[20] But if one considers absolute values rather than relative ones this means that while the average per capita income of Asian developing countries was 145 dollars at that time, it was 44 dollars in the lowest group, and 63, 87 and 129 dollars respectively in the next three groups. For the upper 15 per cent it was 290 dollars, and for the highest 5 per cent it was 750 dollars.

Of course the level of income concentration is unequal in individual Eastern countries. It seems that it was inversely proportional to labour productivity and to the development of capitalism: in 1975, the lowest 40 per cent of the population in India received 17 per cent of the national income. In Bangladesh this was 20 per cent, while in Malaysia it was 11.1 per cent, in Iran 11.5 per cent and in the Philippines 11.6 per cent.[21]

Such unequal income distribution patterns in Eastern countries are explained not only by forms of ownership but also a more complex set of factors. First, as capitalist entrepreneurs operate in social environments that have preserved substantial vestiges of precapitalist relations they are able to receive greater profits through a low price for labour power and a redistribution of the products of direct producers through distorted value proportions. Second, the "demographic explosion" and the concentration of the major part of natural population growth in precapitalist structures are accompanied by growing visible and hidden unemployment. In a number of cases this leads to a decline in income levels of lower population strata. Third, a substantial sphere of precapitalist exploitation continues to exist in Eastern countries that redistributes the incomes of direct producers to traditional exploiting classes. Finally, it has already been noted that there is a growing unevenness in individual sectors of

the economy in increasing labour productivity. In particular incomes of strata associated with industry grow more rapidly than those of the rural population.

Because most of these factors continue to exert a joint influence on income distribution in most Eastern countries the income share of the lowest 40 per cent of the population is continually declining. Estimates of a group of economists created by the IBRD indicate that between 1977 and 2000 the income share of the lowest 40 per cent of the population is to decline from 20 per cent to 17.8 per cent in Bangladesh, from 17 per cent to 15 per cent in India, from 16.5 per cent to 14.2 per cent in Pakistan, from 19.3 per cent to 18.5 per cent in Sri Lanka, from 16.1 per cent to 12 per cent in Indonesia, from 11.6 per cent to 10.8 per cent in the Philippines, and from 11.5 per cent to 10.9 per cent in Thailand.

According to official terminology that population group is described as persons "living below the poverty line", or else as those who live in "absolute poverty", i.e. who cannot provide for a consumption level of 2,150 calories per day. In 1976 there were more than 440 million such persons in Asia. Aside from food, persons in that group continually do not consume a sufficient volume of still other vital necessities. Accordingly, when incomes do increase this results not so much in a change in the composition of consumption and mix of products, as in a greater consumption of the same products, especially food. In a sense the consumption patterns of the lowest 40 per cent of the population thus preserves the material composition of the personal consumption fund and determines its quantitative mobility.

The situation at the other extreme, namely, for persons with the highest incomes is quite different. Above all there is no underconsumption of vital necessities. Increased income therefore produce not so much quantitative shifts in consumption composition as qualitative ones. While traditional elements are still very strong in the personal consumption of ruling classes of Eastern countries and are reflected in very large expenditures on the purchase of valuables, on maintaining social prestige, and on religious ceremonies, increasingly it is oriented on international standards and on the consumption patterns of the higher strata of developed capitalist countries.

Because they control a substantial part of the income that is not spent on vital necessities the higher strata of Asian

societies are major purchasers of a wide range of industrial goods. While general data concerning the composition of consumption of ruling classes of Eastern countries are not available, some knowledge is provided by the case of India, Asia's only developing country that regularly carries out corresponding surveys. There in the early 1970s the upper 4.4 per cent of the population in terms of income accounted for 23.5 per cent of total effective demand for leather shoes, 25.2 per cent for factory-produced cotton cloth, 35.5 per cent for crockery, 40.6 per cent for furniture, 58.9 per cent for other consumer durables and 61.3 per cent for woolens, silks, and synthetic cloth. In contrast to this the lowest 22.7 per cent of the population did not buy any woolens, silk, or synthetic cloth and furniture; they accounted for 2.2 per cent of the total effective demand for factory-produced cotton cloth, 2.6 per cent for leather shoes, 2.3 per cent for crockery, and 0.9 per cent for other consumer durables. [22]

Since in terms of absolute numbers the elite in developing countries is not large, while its consumer expenditures are several times lower than in capitalist countries, the general level of effective demand for consumer durables and new types of goods is still generally negligible. Moreover, that demand is greatly diversified. As a result for both economic and technical reasons it is not always profitable for local industry to produce commodities of that type.

At early stages of economic development qualitative changes in the composition of personal consumption are largely possible through growing national incomes. Because their scope is generally proportional to the latter's rate of growth their pace is slow. Situation in which the magnitude of the personal consumption fund within the gross social product is especially large also results in slow rates of overall economic transformation. In short, low rates of qualitative transformation in the personal consumption funds and of overall economies express objective governing principles rather than some specific characteristics of developing countries generally.

Of greater interest is another feature, namely growing differences in the composition and rates of change of two components of the personal consumption fund that have visibly increased in the 1970s as a result of increasing inequalities in income distribution. On the one hand low and declining levels of income among the basic mass of the population and their widespread reliance on

natural relations in reproducing their personal consumption funds account for their somewhat specific qualitative and partly quantitative stagnation. Their size and characteristics change slowly in the course of many years. Because they largely consist of necessities this holds back the development of branches of the light industry and of the food industry, whose own growth is primarily governed by natural population growth. At the same time the increasing concentration of income exerts a growing influence on the consumption of the upper social strata. Higher incomes and reduced traditional expenditures lead to a rapid diversification in these strata's demand and to their consumption of a growing number of new durable and non-durable goods. Increasingly, the composition of that demand approximates that of similar social strata of capitalist countries.

These changes in demand lead to a rapid diversification of industrial production and to the continual creation of new branches serving the consumption of upper social strata. Their development, however, is not preceded by appropriate material, scientific and technical activities. For the present Eastern countries possess neither corresponding scientific and engineering personnel needed to develop new consumer goods for upper social strata, nor adequate quantities of equipment, raw materials and semimanufactured goods. This is why their production requires closer links with the world market.

Such an approach to development produces highly unfavourable socio-economic consequences. The greater is the intensity of income redistribution, the more pronounced are the differences between the two parts of the personal consumption fund and the slower are changes in the personal consumption of the basic mass of the population. Beyond this industries that serve the upper social strata are based on processing of semiprocessed rather than primary raw materials. But it is those industries that produce such raw materials (metals, chemical products) that are particularly capital-intensive. At the same time the small size of the elite accounts for the modest absolute level of demand, corresponding low levels of output in these industries, and hence increased costs. As a result these industries' priority rates of development increase the overall level of capital-intensity. Finally, in the absence of production of many types of primary raw materials and semiprocessed goods and the economic impossibility of developing import-substitutes because

of low effective demand and the absence of technical experience the high rate of development of these industries increases imports. Thus the development of these industries is one of the causes of deficits in the balance of trade. In short the concentration of incomes currently holds back Eastern countries' economic development.

Apparently at the given stage a redistribution of incomes in favour of the lower social strata reflects not only a necessity to "assert social justice" as is often stated in documents of specialized United Nations bodies but also the need to increase the general pace of development. The latter, however, requires not simply a redistribution of national income, but one that is accompanied by a transfer of a growing part of the able-bodied population into the modern sector where the composition of consumption is more diversified and more modern. Only then can income redistribution help create mass demands, increase scales of production and reduce costs.

* * *

A widely held view in economic science is that while production determines consumption, the latter exerts a feedback pressure on production and regulates its level, rate of growth, and product mix. It would appear that in the case of developing countries for the time being that principle expresses itself only indirectly. This appears to be due to the fact that production (and consumption) that is socio-economically and technically integrated has not yet developed there. Instead, both precapitalist and capitalist forms of production continue to coexist and interact with each other. As a result consumption, too, is governed by precapitalist as well as capitalist objective principles. The heterogeneity of both production and consumption in Eastern developing countries creates a specific type of disparity between them.

Precapitalist forms of reproduction prevail in the agriculture of most Eastern countries whose proportions are close to those of simple reproduction. But the "demographic explosion" and expanded reproduction in local capitalist structure create a situation in which consumption and effective demand continually overtake levels of output of traditional forms of production. A mutual balancing of consumption and production must therefore be mediated by the world market.

Since a larger part of the population of developing countries is concentrated in precapitalist structures their consumption, too, is governed by precapitalist regularities. But expanded reproduction in the capitalist structure (primarily in industry, transportation and communications) rapidly increases the supply of goods and services. This is why capitalist production is being continually limited by an insufficient growth in consumption and a narrow domestic market. Under such conditions a full utilization of capacities and a normal self-increase of capital require a growing reliance on external markets.

Finally the formation of bourgeois societies' exploiting classes accompanied by growing inequality of income distribution and the "demonstration effect" generate tidal waves of increases in the consumption of modern goods. The stratification and fragmentation of domestic markets make it impossible for local enterprises to meet that demand. In other words a growth in consumption that is developing more rapidly than production must also be met through the world market.

As a result the cause and effect connection between production and consumption develop not at the level of any one developing country but of the entire world capitalist economy. But as the world capitalist market becomes a mediating link between local production activities and local consumption it impedes shifts to a new socio-economic system and to a technical reequipment of economies. Under such conditions the completion of industrial transformations appears impossible without overcoming the vestiges of precapitalist relations as well as changes in relations with the world capitalist economy.

CHAPTER VI

Economic and Social Boundaries of the Industrial Revolution

The most important distinctive feature of economies of developing countries is that their labour productivity is many times lower than in developed capitalist countries. This is why a basic objective of their economic development is to increase the social productivity of labour. The most significant relevant factor in human history has been a transition from manual labour to machine labour, that is industrialization in the wide sense of that word, namely, the introduction of systems of machines into all spheres of social production. In such a context the very possibility of industrialization depends on a measure of socialization of production, that is a shift from precapitalist modes of production to either capitalist mode or else, in today's conditions, to socialist mode.

A characteristic feature of machine production under capitalism is a continued increase in the technological level of production. This is accompanied by a replacement of living labour by machines and hence by economies in the wages fund. In developed capitalist countries this is now a relatively gradual process resulting from the replacement of already effective machines by more modern ones. In developing countries the process of technical reequipment is marked by rapid leaps for it concerns the initial introduction of machines which is accompanied by a direct displacement of living labour.

In the mid-1970s the pace of technical reequipment of production in developed capitalist countries increased perceptibly. The energy and raw material crises that led to a relative increase in their prices by comparison with those for final products required a sharp increase in the effectiveness of social production activities in order to stay competitive. Under capitalist conditions that problem could only be solved through a radical modernization and rationalization of production. Indeed while in the late 1960s and the early 1970s somewhat more than half of all new capi-

tal investments in Western Europe and North America were directed at expanding installed capacities and somewhat less than half to the modernization and rationalization of production, following the mid-1970s this proportion was sharply reversed. At that time nearly four-fifths of all new investments were devoted to modernization and rationalization and only one-fifth to expanding installed capacities. The result was a rapid increase in the technological level of production which also led to a very high increase in unemployment. [1]

The Boundaries of Technical Reequipment

Today developing countries are compelled to acquire and use equipment and techniques that are characterized by a high capital-labour ratio independently of whether this corresponds to their internal level of capital accumulation, the price and value of labour power, and the absorption capacity of domestic markets. This is either because capital equipment is still not being produced in developing countries and must be imported or produced on the basis of designs embodying world scientific standards, or because the involvement of Eastern countries into international division of labour requires the use of equipment that can compete with its Western European and American counterparts.

It must be stressed that the current technological level of production is the outcome of a prolonged evolution of developed countries over nearly two centuries. Its growth was also gradual in terms of individual sectors. It extended successively to transportation, communications, agriculture, and finally the sphere of services and circulation. In Eastern countries, on the other hand, increases in the technological level of production must in effect take place simultaneously in all economic sectors. For since modern industry is characterized by big optimal sizes of enterprises, it requires appropriate basic and social infrastructures, as well as a volume of agricultural output that is able to meet its needs for material elements of circulating capital. At the same time the development of subtropical and tropical agriculture which requires irrigation and land improvement activities, protection from insects and weeds, and intense field operations over very short time intervals itself greatly depends on the development of modern industry and transportation.

This is why the technical reequipment of economies of Eastern countries must proceed in terms of discrete steps rather than gradually. Economies that are based on traditional means of production must shift through a number of leaps to the use of the most advanced types of modern technology. These leaps, moreover, must take place almost simultaneously in all branches. [2] This is why the operation of regularities that follow from growing technological levels of production is experiencing substantial changes in developing countries.

It is well known that increases in the share of fixed capital within overall operating capital and the replacement of living labour by embodied labour constitutes an increase in the capital-labour ratio. This produces a continuous increase in the cost of each new job. Increases in the technological level of production are usually also accompanied by increases in the optimal size of production units. This requires a sharp increase in the volume of initially advanced capital. [3]

Uneven increases in the technological level based on the importation of equipment and techniques produces the first contradiction in economies of developing countries. This is a contradiction between the need for capital investment and domestic accumulation capacities. Let us assume an extreme case, in which only American equipment is introduced into the economies of developing countries, which is characterized by a very high capital-labour ratio: in the first half of the 1970s an investment of 28,900 dollars was needed to create each new job in the United States. [4] When imported equipment is introduced into developing countries, especially in the newest industries, the resulting capital-labour ratio is often higher than it is in countries delivering the equipment. Above all the creation of new production units often requires that domestic basic infrastructures be constructed and this greatly increases investments per unit capacity and per worker. In a number of industries optimal sizes of production units also exceed the domestic market's absorption capacity and operations at full installed capacity are not possible.

Because of the chronic underloading of installed capacities the actual capital investments per worker in these industries are often higher than in countries in which the equipment originates.

Yet the level of internal accumulation per capita in developing countries of Asia and North Africa was 33 dollars

in the early 1970s.[5] To create one job at US levels of capital-labour ratios it was necessary to mobilize internal accumulation equivalent to the savings of 876 persons. In short, under a capital intensive approach relying on equipment of the American type it would have been possible to absorb only 0.1-0.2 per cent of the entire active population of Eastern countries each year. Of course because of shortages of skilled cadres, disproportions in sectoral structure, and government efforts to expand employment that figure would have in fact been 2-3 times higher but this would have produced a corresponding decline in labour productivity.

High capital-labour ratios constitute an enormous investment barrier that developed countries must overcome in effecting a transition from traditional means of production to modern ones. Even with relatively high rates of internal accumulation—more than one-fifth in the late 1970s—Eastern countries can only assign a negligible part of their active population to new equipment each year.[6] If they directed their entire investments into capital-intensive modern equipment alone the process of shifting their entire economies from traditional means of production to new ones would apparently become extremely prolonged because of the needed volume of financial resources.

In the actual practice of developing countries, however, only a limited share of their total capital investments is directed to acquire new equipment. It was shown in Chapter V that an appreciable role continues to be played by relatively autonomous production cycles within the lower precapitalist structures in which accumulation is directly embodied into physical assets. In such a context new investments generally play a conservative role since they are embodied into means of production of the traditional type. Because of shortages of foreign exchange, moreover, and of the low price and value of unskilled and underskilled labour power enterprises of the intermediate type are continually formed in which the use of machines is combined with a wide reliance on living labour.

The consequences of capital investments into production units that utilize a wide diversity of techniques are fairly contradictory. On the one hand, they reduce the rate of growth of labour productivity thus increasing the corresponding disparity with capitalist states. At the same time declines in the technological level of enterprises results in

a wider participation of the active population in production than would be possible if only modern equipment were employed. This leads to reduced unemployment and increased social stability. In addition the use of a wide range of equipment in the context of increases in the technological level of capital encourages a continual reproduction of sectors of traditional and modern productive forces in a context in which the disparity between them in labour productivity is continually increasing.

As a result of that polarization of productive forces still another contradiction develops. Increases in the capital-labour ratio imply a high output attributable to each worker and hence in the number of consumers that must possess an effective demand. Yet the continued association of the basic part of the population with the traditional sector as well as the negligible involvement of the able-bodied population in modern production activities hold back adequate increases in effective demand. The resulting contradiction between supply and demand on domestic markets is a major impediment to the further extension of capitalist production. In the countries that were historically associated with capitalism's "first wave" that contradiction was partly resolved in two ways. First, through a decline in production costs as the technological level of enterprises increased which was reflected by means of a competition mechanism in prices of production and sale prices. And second, by expanding markets in colonial and dependent countries.

In developing countries that contradiction assumes a sharper form. Above all increases in the technological level of production are limited to the modern sector, while the greater part of the labour force continues to be concentrated in traditional sectors. The uneven character of the technological reequipment of individual branches of the economy produces an enormous and a continuously growing disparity in sectoral labour productivity that is reflected in the size of the net product and partly in the level of income in each branch. For example, in the mid-1970s gross output per worker in the manufacturing industries of Eastern countries was 22 times the level of average per capita income.[7] Gross output per employed person and per capita income in Eastern countries was nearly four times higher than in developed capitalist countries. If one considers the very high level of imports in developing

countries within the reproduction of fixed industrial capital and in the consumption of higher social strata, it will be apparent that the difference in sectoral labour productivity is a major factor in the rapid saturation of the domestic market. In other words modern forms of industrial development force developing countries to turn to external markets more quickly than was true of developed capitalist states at similar stages of development.

Secondly, the transition from traditional or relatively obsolete means of production to modern ones causes step-like increases in the volume of output. A shift from traditional mills to modern ones in Asian countries produced an eightfold increase in output per worker. But it is precisely such increases in technological levels, together with the low value of labour power created by historic and socio-economic causes that result in a much slower growth in wages—by only doubling.[8] In short output increases four times more rapidly than does the new effective demand resulting from a shift of a part of the labour force to new means of production. Additional demand in the sector of traditional productive forces grows even more slowly. This is why as the technological level of production rises domestic markets are saturated more rapidly than in developed capitalist countries.

Third, the need to encourage local businesses, to meet the state's fiscal needs and to protect direct producers forces the governments of developing countries to support high prices on domestic markets through such measures as excise taxes, tariff duties, price control, and state purchases. In varying degrees such prices make it possible for direct producers to reproduce their necessary product and they provide additional profits to capitalist entrepreneurs. Processes associated with the "green revolution" provide a vivid example. It led to lower costs of production for the capitalist farms that shifted to the new technology. Yet purchasing prices for grain were even increased in a number of countries in order to both increase the profits of capitalist farms, thus stimulating further increases in output, and also prevent the ruin of small and very small farms as a result of declining prices. This served to limit the domestic market's growing capacity to absorb agricultural output.

Finally, today there is probably no need to show the impossibility of expanding markets through the creation of

colonial empires. On the other hand, there are exceptional cases in which a country may become an industrial center serving adjoining less developed countries. It is this in particular that explains today's exceptionally rapid growth of Singapore.

Increases in the technological level of production in developing countries also intensify still another contradiction. Under capitalism the basis for unequal distributions of a society's net product is the form of ownership of means of production. Higher technological levels of production greatly intensify that inequality. For on the one hand both the mass of profits and often profit rate as well increase. At the same time the share of the wages fund in national income declines, thus intensifying the differentiation in incomes.

In Western countries prolonged competition has produced a substantial leveling of the technological structure of functioning capitals. Accordingly increasing the technological level of production is generally accompanied by a decline in the rate of surplus value and an increase in the mass of profits. Since the major part of the additional profit is capitalized, higher technological levels of production increase the rate of growth of installed capacities. While the growing value of labour resulting from increased skills, the high degree of organization of the workers' movement and the growing struggle of workers generally tend to impede declines in the price of labour power this does not prevent a continuing relative decline in the share of the wages fund in national income. Thus by increasing installed capacities and causing a relative decline in the population's purchasing power increases in the organic composition of capital constitute a major factor in crises of overproduction.

Developing countries contain not only technologically diversified capitals but also precapitalist economic units. As a result increases in the technological level of production usually influence the prices of production in ways that increase the profit rates of lowest-cost producers at the expense of less effective firms. This explains the far greater concentration of incomes than in Western states among capitalist upper strata.

But it has already been noted that a substantial part of profits in developing countries is consumed in non-productive ways. [9] Since the average income of the bourgeoisie in

Eastern countries is less than in Western capitalist countries this reduces the share of profit that is capitalized. Accordingly for the present increased technological levels of production do not play a substantial role in increasing the scale of production.

Additional profits exert a far greater influence on the bourgeoisie's consumption composition. While its lower average income level by comparison with the West causes a substantial diversification in demand the absolute volume of consumption of each new commodity is relatively limited. It thus becomes impossible to satisfy the emerging effective demand within national limits.

The influence of increases in the industrial technological level on the working class of Eastern countries is also different. There systems of machine-based productive forces are still at a formative stage: new production units continue to be created each year, continually embodying higher technological levels. This results in both an absolute and relative expansion of all functioning capital, including the wages fund, within national boundaries. But the wages fund grows more slowly than under constant technological levels. If one keeps in mind that only one-seventh of the entire active population in developing countries is associated with modern means of production it will be clear that overall purchasing power will increase even more slowly and that the disparity between production and consumption will increase.

It was shown in Chapter V that a general characteristic feature of developing countries is a slow increase in effective demand given its enormous stratification. This makes it impossible to create a number of industries, for in many cases normal levels of output become unprofitable for either technological or economic reasons. Because higher technological levels of production also increase the stratification of effective demand for both personal consumption funds and productive consumption funds rather than contributing to overproduction they impede the establishment of machine production modes.

Thus the objective principles that govern the self-increasing behaviour of capital indicate that a complete technical reequipment of developing economies is made impossible among other things by the limited nature of investment resources, insufficient effective demand, and a stratification of its material composition. This is why one observes in

Eastern countries the beginnings of a self-reproduction of sectors based on industrial and traditional productive forces respectively. As technological levels of production increase, the disparity in the labour productivity of sectors continually increases.

The Dichotomy of the Socio-Economic Structure

In many ways the relative proportions of industrial sectors and sectors of traditional productive forces and their socio-economic systems also depend on increased technological levels of production. Increases in technological levels imply a decline in the use of living labour per unit of invested capital. The manner in which this influences employment is governed by a number of such specific factors as the character of technological changes, the relative importance of intensive and extensive factors of development, the relative proportions of increases in the organic composition of capital and economic development and changes in demographic indicators.

Higher technological levels may produce a complexification or else a simplification of fixed capital's technological structure by requiring either a wider use of skilled labour, or else of unskilled labour. Since the value and price of skilled labour is higher than those of unskilled labour, given similar volumes of variable capital fewer persons will be employed in the first of these cases.

Generally increases in the technological level of production do not constitute an all-embracing process: while there may be intensive technological changes in some industries, there may only be an expansion of installed capacities in others on the basis of achieved levels of technical progress. Accordingly employment declines—relatively or else absolutely—in industries experiencing a technical reconstruction and increases in those that are expanding through extensive methods. It is the joint operation of these two different processes that defines the leading tendency. In the 1950s intensive methods of development prevailed in developed capitalist countries, while in the 1960s and especially in the late 1960s they were primarily extensive, and in the late 1970s they were intensive once more.

Under higher technological levels of production the level of employment depends on changes in the absolute level of the wages fund. If rates of increase in the technological

level of production exceed the overall rate of economic growth employment will decline. If these rates are equal, employment will be stable. And if the rate of economic growth is higher, employment will begin to increase.

The actual influence of these factors on the utilization of labour resources can be understood by keeping in mind the general demographic situation in the country being considered, for they may either match or else fail to match basic demographic tendencies. For even when productive employment increases, for example, (the third factor) the share of unemployed labour may increase if population growth is still more rapid than employment growth.

In today's developing countries the actual operation of these factors is extremely complex and contradictory, although the balance of all these factors has been such that their joint effect on the employment of labour resources has been negative.

Above all it should be noted that increases in the technological level of production in these countries relate not to an established mode of production but to transitions from one mode to others, and in particular from manual modes to machine modes. This is precisely why the organic composition of capital increases in discrete steps rather than gradually. In the case of a shift from mills of the traditional type to modern ones mentioned earlier, the share of variable capital declined by nearly three times, from 41.7 per cent of the functioning capital to 14.3 per cent. A comparable reduction in the relative weight of variable capital in industry in the United States required nearly 60 years.

Higher organic compositions of capital influence labour resources in two ways. First, since the use of new equipment not only reduces production costs but often improves the quality and durability of products and reduces their material intensity and the duration of production cycles this displaces traditional forms of production and reduces employment. Second, a decline of the share of variable capital implies a relative decline in living labour engaged in production units of the new type. [10] One may thus observe two parallel processes: the displacement of labour power from traditional spheres of employment and a relative decline in the use of living labour in new industries.

The replacement of manual means of production by machines also requires an altogether different type of labour power with far higher skills. Yet in developing countries

the disparity between the value of skilled and non-skilled labour power is greater than in developed capitalist countries. The shortage of skilled labour power also brings the prices and value of such labour power closer together. As a result incomes of skilled workers in modern industry or in transportation are 4 to 6 times higher than those of peasants or of craftsmen.

Accordingly actual possibilities for assigning additional labour power to modern forms of capitalist production are several times less than in the case of early capitalist or precapitalist forms.

The proportion of intensive to extensive factors of development has also begun to change. Before the mid-1960s increases in the organic composition of capital in most Eastern countries and intensive factors of growth were largely characteristic for large industries, transportation, communications, and construction. Agriculture, on the other hand, save Algeria and Turkey, developed primarily through the cultivation of new lands with additional labour power, that is through extensive methods. This provided some possibilities for increasing the productive use of a growing population. After the mid-1960s when a "green revolution" developed in many countries wealthy farms shifted to intensive methods of production. While by comparison with West European and especially American standards corresponding technological levels of capital remained low they were far higher than those of the basic mass of agrarian producers. It is this which determines the lower labour absorption capacity of that group of farms.

Today, the prices of many types of agricultural goods in Eastern countries are fixed at levels that prevent the mass ruin of precapitalist farms functioning at high production costs. But this also holds back increases in the domestic market's capacity to absorb agricultural produce. As a result additional employment possibilities have also begun to decline in agriculture, and should changes take place in domestic price policy sudden increases in unemployment could follow.

Similarly general rates of economic growth were insufficient to make possible a full utilization of labour. Generally, rates of economic growth of Eastern developing countries were relatively high—for the period 1950-1978 the average yearly increment in national product (in constant prices) was 4.9 per cent. But a relatively substantial part

of growth was determined by such external factors as the restructuring of the price formation mechanism for petroleum, and changes in relations with international monopolies. As for specifically domestic growth factors step-like increases in the organic composition of capital produced rates of development of branches of material production that did not result in perceptible increases in productive employment.

These economic processes were further intensified by unfavourable demographic tendencies. Because of the "demographic explosion" in Asian developing countries average rates of natural population growth rose from 1.3 per cent in the 1940s to 2.6 per cent in the 1970s, and attained 2.7 per cent in countries of North Africa. Average yearly additions to population increased from 12.4 million persons in the 1940s to 45.6 million in the 1970s. [11] The size of the able-bodied population grew almost as rapidly. This produced a contradiction between a rapid increase in the number of able-bodied persons and a relative decline in the need for living labour.

The example of India shows how that contradiction expressed itself in practice. That country possesses the needed statistic base. In 1948 yearly domestic accumulation could provide employment at prevailing capital-labour ratio in manufacturing industries for 43.1 per cent of the yearly population increment. But in spite of a several-fold increase in domestic accumulation that indicator declined to 23.4 per cent in 1978. This was partly explained by a higher capital-labour ratio and a growing organic composition of capital, and partly by the "demographic explosion". In short the economy's labour absorption possibilities declined by nearly one half in 30 years.

Since the economy's most rapidly developing sectors, namely, industry, transportation, communications and construction activities simultaneously experienced a process of relatively rapid technical reequipment they absorbed a small part of the additional labour power. In particular between 1951 and 1976 employment in extractive and manufacturing industries, transportation, communication, and construction activities increased by 55 million persons in developing countries, i.e. only 9 per cent of the natural population increment. [12] By far the greater part of additional labour resources was forced to settle in traditional spheres of employment, namely, agriculture, lower forms of industry, services,

and small-scale commerce. In those countries in which possibilities for extensive forms of utilizing labour resources were largely exhausted (this includes the majority of Eastern countries) this produces reproduction problems. In the economic aspect there is a further partitioning of small-scale ownership, a decline in labour productivity, and a preservation of existing traditional instruments of labour. In the social aspect this increases both hidden and open unemployment creating an enormous army of paupers, lumpen proletariat who will apparently never be able to be associated with modern means of production under existing technologies and production relations. Finally in the socio-economic aspect this involves the large mass of the population into capitalist production relations above all through the sphere of circulation—a development that preserves possibilities for an interweaving of precapitalist and capitalist forms of exploitation.

One may note two major consequences of these processes. First a concentration of the major part of labour resources in a sector that is primarily based on traditional means of production. This is accompanied by a growing pressure on natural resources, a decline in the standard of living, and a preservation of precapitalist forms of exploitation. Taken together this results in an extremely slow growth in effective demand in that sector, that at best approximates the rates of population growth.

Second, progress in science and technology and a further internationalization of the world economy maintain the tendency towards a higher organic composition of capital in the capitalist sector of the economies of developing countries and towards a relative decline in variable capital and increase in labour productivity. Since this is accompanied by a further ruin of small-scale commodity forms of production or early capitalist forms the modern productive forces sector cannot involve any substantial part of developing countries' labour resources. According to the most optimistic estimates it may at most involve a third of the total population. But its high productivity and extensive division of social labour creates a situation in which it is that part of the population that will contribute the basic volume of the gross and net product. In its turn the prevailing role of capitalist production results in a dominance of capitalist relations. Thus while industrial transformations may be completed from the point of view of production the

greater part of the able-bodied population will find itself unconnected to industrial forms of labour. This is a major difference in the development of Eastern countries by comparison with corresponding stages of development in Western countries.

Under what conditions then could the greater part of the population of developing countries be engaged in industrial methods of labour? An analysis of the strategies and practical measures of Eastern states makes it possible to identify three basic variants of development. With rare exceptions none of them, of course, occurs in a pure form.

The first variant is to transfer the population into the sector of modern productive forces through the development of export branches. That variant is actively advanced by Western economists and is widely represented in documents of UNCTAD, regional economic commissions of the United Nations, and other international organizations. In varying degrees it is incorporated in the development strategies of most newly independent countries. The second variant is to widen the domestic market through a simultaneous introduction of systems of machines into all branches of the economy. It is primarily characteristic of the petroleum-exporting countries of the Middle East. The third variant is to widen the domestic market and employment by relying on a variety of technologies. That variant has been applied in India during three decades and ESCAP recommends its use by the majority of countries in that region.

Since the problems of export-orientation have been considered in Chapter IV, we will now examine only its influence on employment. It is widely known that the share of demand for most raw material products from Eastern countries has been declining and that their overall exports can only be increased by exporting a greater volume of finished industrial goods. In that connection the Lima Declaration, adopted by UNIDO's Second General Conference in 1975, has formulated the following objective: to raise the volume of industrial production in developing countries by the year 2000 to 25 per cent of its world level and their export of industrial goods to 65 per cent of the volume of finished goods imported from developed countries. But it became evident that the first objective is practically unattainable because of the limited capacity of both domestic and external markets. At present it is forecast that the

average yearly rate of growth of exports of industrial goods will be raised to 13 per cent, and of industrial production to 8-8.5 per cent in 1980-2000. This would allow developing countries to raise their volume of production to 20 per cent of the overall world level and of exports to 63 per cent of imported industrial commodities. [13]

At such rates of development the volume of industrial output should increase by 4.6 to 5.1 times and employment in industry by 2.1-2.2 times. Since additions to labour power in Asia's developing countries in 1980-2000 may reach 60 per cent, 24-26 per cent of this number may be involved in industrial employment. As a result the number of persons employed in industry may increase from 13.1 per cent in 1975 to 17-18 per cent by the year 2000. If one takes into account the ILO's estimate that in 1975 fully unemployed persons constituted 4 per cent of the entire labour force in Asia's non-socialist countries and partly unemployed—36 per cent, it would appear that even under the most optimistic estimates for growth in industrial employment unemployment will not be overcome.

In addition two other circumstances may exert a serious influence on expected rates of increase in industrial employment. First, lower forms of industry continue to play an important role in Eastern countries. Their contribution ranges from 10.3 per cent of the net industrial product in Turkey to as much as 37.8 per cent in Indonesia. [14] Accelerated industrial development inevitably displaces some of them. Accordingly rates of growth in industrial employment may decline. Second, as a result of the structural crisis in the economies of capitalist countries this has led them to introduce new protectionist measures by the mid-1970s that limit imports of processed goods from developing countries. The new wave of protectionism casts doubts on the possibility of achieving the rates of industrial exports from developing countries that were forecast.

In short the development of export branches of industry cannot assure a linkage between the able-bodied population of Eastern countries and industrial means of production. Of course this does not imply that a small number of countries in which the share of industrial employment already exceeds one-fourth of the active population (e.g. Tunisia, Singapore) cannot complete the technical reequipment of their economies by developing export branches.

It has already been shown that the development of ma-

chine methods of production in Eastern countries is being held back by variations in labour productivity in individual economic sectors for this hampers a deepening of the social division of labour and hence the domestic market's capacity. This is why a simultaneous introduction of a system of industrial productive forces into all sectors of the economy may result not only in a substantial widening of employment in the sphere of material production but also a larger growth in the labour absorption capacities of the sphere of services and of circulation that will then serve growing intersectoral and also intrasectoral exchanges of services and production. While such a variant of development appears to be theoretically possible it meets with a number of limitations in the practice of Eastern countries.

Above all the difficulties that are associated with such a variant derive from the high capital-intensity of modern means of production and the need to seek substantial additional capital investments. At early stages of economic growth this is possible only for example in the petroleum-exporting countries that possess large financial resources.

In addition the cumulative effect of expanding domestic markets through introducing modern means of production begins to be felt only when the national industrial economic complex being formed reaches the stage of completion. Yet the ruin of small and very small business of the traditional type begins immediately following the output and marketing activities of the first modern productive units. Unless development processes are regulated that variant will thus quickly meet two limitations. In the economic aspect the ruin of lower forms of production reduces the domestic market and thus limits the expansion of installed capacities. At the social level the ruin of small business produces mass unemployment and growing socio-political tensions that may lead to revolutionary explosions.

It would therefore appear that efforts to implement that variant of development can be effective only in the following cases. First, in countries possessing large areas of easily accessible uncultivated land (such as Thailand). The use of machinery may then be matched by extensive forms of developing new lands as well as temporary increase in employment in the traditional productive forces sector. It is also possible to introduce modern means of production into all sectors of the economy under the forms of development that take place in the Arab petroleum-exporting countries. There

the overwhelming part of local population are not ready to participate in modern production activities. Accordingly the development of modern production activities requires that the labour force be invited from other countries. Local levels of consumption, on the other hand, which remain distinct from modern forms of production, are increased through subsidies made possible by high petroleum incomes. It is still difficult to forecast the outcome of such an experiment but it would appear that both these cases are not representative of the overwhelming majority of Eastern countries.

The third variant, namely, expanding the domestic market and also employment by technologies of different levels can be viewed as a specific case of the second variant. The difference between them is that instead of a discrete transition from traditional means of production to modern ones a gradual, multistep transition is assumed. It is also assumed that the use of means of production that are more productive than traditional ones but also more labour-intensive (though less productive) than modern ones, will make it possible to increase both labour productivity and employment. Indeed, the use of less productive means of production possessing a lower organic composition of capital can increase the population's involvement into the sector of relatively modern productive forces and thus increase the overall economy's labour productivity. But even the use of a mix of technologies will apparently not make it possible to greatly reduce the share of population employing traditional means of production.

For even when relatively obsolete equipment is introduced less productive means of production are replaced by more productive ones. This leads to the ruin of lower forms of production and to the displacement of large numbers of persons from productive employment. [15] In principle a lower organic composition of capital should contribute to a wider association of living labour with relatively modern means of production. But the influence of a lower technology on employment depends on two factors. First, such technologies cannot be employed in all sectors. The scope and forms of its rational application depend not only on the price and the value of labour power but also on such factors as the nature of the technological solutions employed in particular branches and the availability of particular natural resources. In addition the coexistence of various technological levels makes it extremely difficult to link corresponding produc-

tion units and to create mutually coordinated productive complexes. It also reduces employment in the sphere of non-material production that serves these production units. It may even be that a reliance on technology of different levels may constrain intermediate and auxiliary branches so much that resulting losses in employment will exceed additions.

Thus none of the described variants of development nor any combination of them produce a substantial reduction in the share of the population that is associated with traditional means of production. Naturally, in view of the great heterogeneity of Eastern countries the outcome of these development variants or of combinations of them may differ from case to case. Nevertheless over a prolonged period of time there will continue to be two sectors in most of these countries that are based on different types of means of production. Reciprocal linkages between them may be quite weak. The traditional sector based on pre-machine methods of production will largely serve as a source of unskilled labour power whenever levels of production in the industrial sector increase and will also acquire within the latter a part of the products it needs—primarily for the reproduction of its personal consumption fund.

The quickened pace of capitalist development and the emergence of modern and traditional means of production also change the socio-economic system of Eastern countries. These processes cause a certain erosion of traditional production relations and a certain merging of individual structures.

Structures differ, of course, above all in terms of the nature of their production relations. In each such structure, moreover, the carriers of these relations, namely, exploiting and exploited classes appear in a dialectical unity. In feudal structure this is the landowner and the peasant, while in small-scale commodity structure they are merchants and money lenders, on the one hand, and small-scale producers, on the other. But numerous sociological surveys in developing countries have shown that their national bourgeoisie is largely recruited through transfers of traditional exploiting classes and strata to capitalist types of activity (landowners, trade intermediaries, money lenders, contractors). At the present stage this process is somewhat specific. As they transfer to capitalist types of activity traditional exploiting classes often also preserve precapitalist operations. They then appear as

subjects of the production relations of not one but several structures—a factor that weakens internal relations within each of the lower formations and gradually changes their character.

Together with an erosion of relations within intrastructural formations there also takes place a certain type of levelling of the reproduction conditions of lower structures. Under the pressures of a parceling of ownership or of competition small-scale commodity producers are forced to both reduce their market-oriented activities and supplement their incomes by selling labour power (their own or that of family members). At the same time the same economic pressures push patriarchal peasants to sell a part of their produce on markets or else of their labour power. Their product-exchange relations with craftsmen are also disrupted. Direct producers, too, become subjects of several types of production relations.

This results in a "levelling" of the character of production relations and reproduction conditions, as it were, in precapitalist formations of developing countries. A number of lower structures begin to lose their original characteristics and gradually transform themselves into a relatively unified sector. Of course that unity is only relative for it includes the most varied social strata ranging from lumpen proletariat and paupers to small-scale producers experiencing gradual ruin. It thus preserves vestiges of the most diverse precapitalist production relations.

That transition from a multi-structural economy to a two-sector economy is a new phenomenon in developing countries that is attributable to the development of capitalism in the specific conditions that characterize developing economies. Yet the emergence of the sector of traditional productive forces under the influence of capitalsim does not justify viewing it as transitional. So long as the existing socio-economic order is preserved it cannot effect a transition to higher types of production relations or to more modern means of production. The absolute level (and sometimes also the share) of the population that it contains will continue to grow. At the same time the acceleration of capitalist transformation of the economy and the development of bourgeois relations among traditional exploiting classes will lend a capitalist form to prevailing production relations.

It may be assumed that by increasing the threat of social upheavals the development of a two-sector socio-economic system makes the development of capitalism even more diffi-

cult. Indeed, while earlier the national bourgeoisie was able to use interstructural contradictions and different interests of individual classes and strata to its own advantage by opposing them to each other, today it is increasingly confronted by an enormous mass of impoverished population. It is this that forces governments of developing countries to apply more efforts to prevent social tensions.

The development of relatively autonomous sectors of modern and traditional means of production produces substantial changes in the relative importance of factors limiting economic growth. Following political independence government measures to protect and stimulate the national economy created possibilities for import-substituting forms of development. This led to the emergence of intermediate types of production and a greater output of consumer goods for the population associated with the growing modern sector. It is at that point that a shortage of material and financial resources became a basic limiting factor of economic growth. Yet under capitalist conditions the potential of import-substitution is not capacious. The incomplete character of socio-economic transformations, the discrete nature of increase in the organic composition of capital, and increasing income inequality produce situations in which rates of import-substitution overtake the growth in effective demand on the domestic market. Accordingly following the exhaustion of import-substitution capacities rates of economic development begin to decline.

A low level of effective demand becomes the basic factor limiting economic growth. Since the late 1960s an increasing number of developing countries, including Eastern countries, began to approach that new limit to growth. The appearance of the export-oriented strategy reflected that shift in limiting factors. It is this that led to an emergence of the movement to establish a new international economic order, for at the present stage so long as current socio-economic relations are preserved an expansion in output requires sales on external markets.

New Functions of the State

The emergence of a two-sector socio-economic and technological structure makes possible the appearance of a new limiting factor to growth. This is shown by the experience

of Latin American countries where economic development has been initiated several decades earlier than in Eastern countries. Once modern and traditional sectors have emerged social tensions within the latter increase as a result of a real deterioration in the position of the population that is concentrated there and of their rising hopes and expectations. This forces the ruling class to redistribute a part of the modern sector's net product into the traditional sector in order to prevent social upheavals.

Yet because of the insufficient development of capitalist relations as well as the competition of the modern sector on potential markets, resources that are channeled into the traditional sector cannot be realized as capital. In other words the principal aim of such a redistribution is not to expand production but rather to sustain minimal consumption standards in the traditional sector. But the consumption fund may then be increased by reducing the accumulation fund, and that reduces the rate of growth.

Because of the erosion of production units of the intermediate type, the further rise in the organic composition of capital, and relative and absolute increases in populations concentrated in the traditional sector, measures to maintain social stability may require larger means than those that the modern sector can provide without imparing expanded reproduction. Another alternative is a radical change in relations of ownership and in the corresponding system of redistribution.

Accordingly the preservation of the socio-economic system that is developing in Eastern countries will increasingly require larger inflows of external resources that must be largely assigned to increasing consumption in the traditional sector rather than to increasing rates of economic growth. In short, the development and preservation of capitalism as a socio-economic system of developing countries are only possible with continuous and growing support by the world capitalist economy.

Whether it is possible to preserve such an antagonistic dual system over a prolonged period of time depends on the role of the state and its functions. There is currently no consensus in Soviet economic literature concerning probable changes in the role and functions of the state in developing countries. The most widely held points of view may be summarized as follows.

State capitalism in developing countries is a relatively

temporary transitional phenomenon. In countries that follow the capitalist approach to development after establishing private capitalism state capitalism must shift to state-monopoly capitalism and become a subordinate mechanism in serving the interests of higher groups of the local bourgeoisie and international monopolies. The economic role of the state will subsequently be largely similar to its current role in imperialist states.

Another point of view is that developing countries constitute somewhat specific non-formation societies containing a multiplicity of structures, disruptions in their reproduction processes, an uncompleted process of class formation and a diversity of forces holding power within which nationalist bourgeoisie play a relatively minor role. This allows the state to acquire a relatively larger autonomy and to regulate interstructural relations. At the same time state entrepreneurial activities are carried out not within the framework of state capitalism but within a state structure that does not possess distinct socio-economic characteristics. This is why such state structure may provide a basis for subsequent transition to a non-capitalist way of development independently of the country's social and economic position. [16]

Yet it would appear that the actual overall situation in developing countries generally and in Eastern countries in particular is much more complex and contradictory than each of these points of view assume. Even in countries possessing the lowest level of development of productive forces and production relations that the United Nations describes as least developed (e.g. Bangladesh, Nepal, Yemen Arab Republic) the state sector, according to the type of relations within it, is essentially capitalist. Independently of subjective strivings of ruling classes or coalition of classes that hold power all state activities in that group of countries since the late 1950s have served to quicken the pace of development of local capitalism. The emergence and strengthening of capitalist production relations was even more evident in that region's more developed states.

The growth of capitalism in developing countries has produced both the emergence and expanding of capitalism as a structure and a gradual change in the composition of ruling forces. This has taken either the form of additions to their numbers by representatives of the national bourgeoisie or of the development of bourgeois attitudes by former feudal and semi-feudal elements. It is therefore difficult to as-

sert that as the state extends its economic functions in that group of countries a basis is created for a transition to a non-capitalist way of development no matter what the initial stage of socio-economic development. It would appear that there, as well, a transition to a socialist orientation now requires not the choice of an approach (in Eastern countries that choice is practically completed) but a cessation of development of capitalism.

But there are prerequisites in developing countries for the transformation of state capitalism into a state-monopoly capitalism. It is a fact that the development of capitalism inevitably leads to the concentration and centralization of capital and that underlies the emergence of monopolies. Their subsequent growth and the monopolization of economies then produces a merging of their interests and those of the state.

Yet there also operate a number of economic, social, and political factors that either impede or else delay the appearance of state-monopoly tendencies and the formation of state-monopoly capitalism in developing countries. In Western countries state-monopoly capitalism developed several decades after the completion of their industrial revolution. At the economic level it was associated with the need for a further socialization of production activities in a context in which private forms of ownership of the means of production were preserved and were accompanied by a sharp development of productive forces. In developing countries the very emergence of a system of industrial productive forces was accompanied by a widening of the state's economic functions that was not characteristic of Western countries at corresponding stages of their industrial evolution. Today in the economic sphere of Asian and North African countries the state plays a more important role than was even the case in capitalist countries in the second half of the nineteenth century. A higher level of socialization of modern productive forces and a substantial intervention by the state even into the functioning of precapitalist forms of production produce a situation in which there does not currently exist an objective need for a merging of the interests of the state with those of monopolies, since for the time being a socialization of production is being achieved through other methods.

Furthermore, the functions of the state in protecting the interests of the ruling class must be both wider in scope and more diversified.

First, the preservation during a prolonged period of time of the present dualism in the economy and society provides relatively wide possibilities for activities of precapitalist exploiting classes. This preserves specific contradictions between the national bourgeoisie and local precapitalist classes slowly joining the bourgeoisie. Accordingly the state must stimulate the development of local capitalist relations and encourage the formation of a national bourgeoisie while simultaneously encouraging a bourgeois transformation of precapitalist classes and social strata.

Second, a more rapid pace of development of capitalism in Eastern countries is accompanied by a recruitment into the bourgeois class of the most varied social strata and groups that differ in the spheres to which they apply capital and its size. Moreover, the share of each stratum and group and the corresponding correlation of forces within the bourgeois class change continually. The rapidity of such processes, the incomplete character of class formation, and the close relations of individual groups of the ruling class with precapitalist exploiting elements or foreign monopolies are all factors that threaten to produce extremely sharp contradictions and confrontations within the national bourgeoisie. In the context of growing pressure from lower social strata and of a struggle between two world socio-economic systems such conflicts may simply result in a loss of power by ruling classes. Accordingly, one of the state's basic concerns is to consolidate the ranks of the ruling classes. But that is only possible when it is continually pursuing a policy of compromises that consider the interests of all groups of the bourgeoisie, that is, when over the long term it expresses the interests of the entire bourgeois class rather than of any one of its groups.

Third, the role of the state in protecting the national bourgeoisie's interests from imperialism continues to operate. As the market becomes a basic limiting factor to further economic growth that function becomes particularly important. Only the state can assist in continuing the displacement of foreign goods and services on domestic markets and encourage expanding exports at a time when capitalist countries are resorting to protectionism anew. In addition since national bourgeoisie is less powerful economically and less experienced in entrepreneurship than are foreign monopolies, the state must assist in the establishment of relatively equitable relations between national and foreign enterprises.

State activities in defending national economies from imperialism, however, meet not only the interests of the local bourgeoisie, but to some extent those of the country as a whole.

The more rapid pace of capitalist development following political independence has intensified the concentration and centralization of capital which underlies the formation of local monopolies. Between the 1950s and the 1970s national monopolies emerged in a number of other Eastern countries besides India—including Pakistan and Iran. A merging of local and foreign monopolies also could be observed. But as a result of the factors that were noted earlier there has not been so far a merging of the interests of local monopolies with those of the state. In fact in serving the interests of middle and lower social strata of the bourgeois class the state nationalized the property of monopolies in cases in which their activities produced potentially explosive social situations (India, Pakistan). This points to the highly limited potential of state-monopoly capital in Eastern countries at the present stage.

At the same time economic growth and capitalist development produced a continual change in the functions of the state of developing countries as well as in implementation methods. As missing links in reproduction are created and as primary complexes of industrial productive forces develop there is an objective decline in the need for direct entrepreneurial activity by the state. This is accompanied by an increased importance of auxiliary state activities in developing basic and social infrastructures designed to improve conditions for private entrepreneurial activity.

In developing countries, however, one only observes the creation of complexes of industrial productive forces, while in capitalist states new complexes of productive forces are developing that are based on the achievements of the revolution in science and technology. Accordingly, when both domestic and external conditions are ripe one may expect a leap in the development of productive forces in Eastern countries. It would appear, moreover, that a transition from machines to the new productive forces based on the achievements of the revolution in science and technology can only be effected by the state. In short, direct entrepreneurial activity by the state may increase at a later stage of development.

In the context of growing class and social antagonism in the two-sector economy there may be a gradual decline in the state's economic functions by comparison with its social

functions. For only the state can support social stability through partial concessions to working masses and by partly redistributing the modern sector's net product to the traditional one, and through a relatively "just" distribution of the burden of these non-productive expenditures among various social strata and groups. As the level of social tensions rises so does the importance of the state's function of social protectionism.

The development of monetary and commodity relations and of capitalism also changes the methods through which the state's economic and social functions are implemented. During the initial years of independence the prevalence of lower precapitalist structures in which market laws did not yet operate compelled the state to rely on a wide range of forms of administrative intervention into the economy. As capitalism developed and market laws extended to the greater part of the gross social product the original objective need for such administrative intervention into economic processes declined steadily. Today the state is able to rely increasingly on more familiar measures of economic regulation through fiscal and monetary policies.

It is unlikely, however, that events will justify the expectations of Western researchers and of political leaders in many developing countries that a substantial "liberalization" of the economy will be possible in the sense that the state will abandon its economic control methods. There will long continue to be sectors in developing economies with a low adaptability to the market. The need to redistribute net product to the traditional sector will also produce continual economic disruptions that can only be corrected through direct administrative intervention. In short a greater reliance on fiscal and monetary policies will be accompanied by continuing administrative intervention even though on a lesser scale than earlier.

* * *

The functioning of capital as an economic and social category defines fairly strict boundaries to its further development in Asian and North African countries. The laws underlying the self-growth of capital prevent the involvement of the larger part of the population of most developing countries into capitalist reproduction. While capitalist production in developing countries may dominate in terms of such in-

dicators as gross output, net product and marketable output these countries will differ greatly from capitalist states in Western Europe and North America, above all by retaining a vast number of persons in the sphere of pre-machine forms of production and hence by lower average values of all economic indicators.

Beyond this while the economies of Eastern countries following the capitalist way of development will be enveloped by a shell of capitalist production relations together with corresponding economic, legal, ideological, and other norms that shell will in fact envelop not the capitalist economy proper, but a two-sector economy. The concentration of the basic mass of the population in the sector of traditional productive forces, given its preservation of precapitalist forms of exploitation and its declining standard of living and pauperization there, will continually produce a potentially explosive situation in that group of countries. In short the level of social tension in Eastern countries will continually be higher than in Western European or North American countries.

Moreover, at a certain stage not only an expanded reproduction but even a simple reproduction of capitalist production relations in Eastern countries will begin to depend increasingly on the redistribution of national resources from accumulation funds into consumption funds and a certain decline in economic development may result. Because of the incomplete development of the national bourgeoisie and sharp differences between the interests of its individual social strata and groups only a state possessing strong socio-economic functions may effect such a redistribution. Since the state must then serve the interests of the entire national bourgeoisie one may assume that in Eastern countries state capitalism will long avoid a transition to state-monopoly capitalism.

Finally, because of the relatively modest size of the modern sector in Eastern countries and hence the highly limited possibilities for redistributing its net product into the traditional sector over the long term this form of development of capitalism requires continuing and increasing support by the world capitalist system. In short as world capitalism expands by incorporating developing countries it will experience an increasing burden in sustaining existing production relations while its own socio-economic instability will be felt stronger.

Conclusion

Following the political independence a relatively rapid dismantling of colonial economic structures took place in most Eastern countries that altered the system of relations with former metropolises. This was the basis on which countries entering upon the capitalist path of development experienced a substantial acceleration in the development of capitalism and the establishment of a system of industrial productive forces. Today, in terms of their level of output, the nature of production relations, and their type of income distribution, etc the most advanced Eastern countries have begun to approach the capitalist states that have moderate levels of development.

The restructuring of productive forces and of production relations that is taking place in the East is similar to the industrial revolution of the first half of the nineteenth century in Western European countries and North America. Over a century and a half divides the industrial revolutions in the East and in the West. During that prolonged historical period there have been such enormous changes in world politics and economics, external economic relations and social patterns that they inevitably influenced all processes of socio-economic transformation and of technical modernization in the developing countries of Asia and North Africa.

As the most revolutionary class of the emerging new mode of production, the West European bourgeoisie relied on methods of force and compulsion in contributing to the forming of new production relations and of a system of industrial productive forces. These methods were applied to both precapitalist exploiting classes and to exploited classes. Force also played an important role in the external economic sphere where it included the conquest of colonies as sources of raw materials and as markets, a strict protectionism, and trade wars. These measures were aimed at achiev-

ing a rapid transformation of European countries into industrial powers.

Industrial revolutions in Eastern countries took place in the context of an inequality in the position of developing countries and of developed countries within the world capitalist economy, of capitalism's retreat and decline as a mode of production and a transformation of socialism into an important factor of world development. This made it impossible for the national bourgeoisie of Eastern countries to take decisive measures against precapitalist exploiting classes both because of its own origins and of continuing close ties with them and because of a fear of social upheavals on a scale that could bring to an end the exploiting system as a whole. This explains the slow evolutionary forms of transition by precapitalist exploiting classes and social strata into bourgeois strata. In addition the very wide scope of small-scale production makes it possible to combine capitalist and precapitalist methods of exploitation. This is why the price that the national bourgeoisie must pay for the economic and political cooperation with traditional exploiting classes undergoing embourgeoisement is fairly high. It must accept low rates of expansion of the domestic market and continued high prices for individual elements of circulating capital.

Similarly, the policy of the national bourgeoisie with regard to foreign monopolies is also ambivalent. Because it is interested in improving both domestic and external conditions for expanding its entrepreneurial activities it seeks to limit the operations of foreign monopolies through a selective nationalization of their property, tariff protectionism, and a joint struggle for changing the system of international economic relations. Yet because of its own economic and political weakness the national bourgeoisie in developing countries is not only unable to take decisive and consistent measures against foreign monopolies, but must accept inequitable forms of cooperation with them.

By encouraging the inflow of foreign capital into the most profitable economic spheres, creating a favourable climate for foreign capital within their country, and maintaining possibilities for a continued exploitation by foreign monopolies of the developing countries' human and natural resources their national bourgeoisie is forced to share a part of the surplus value that is produced in their countries with imperialism and this limits the self-growth rates of capital. Yet in the present situation the national bourgeoisie is not

always able to compensate that redistribution by further intensifying the exploitation of their country's population.

The specific characteristics that are associated with the achievement of political independence, namely, the wide involvement of masses in the national liberation movements and their substantially greater measure of organization and awareness than was the case during the industrial revolution in the West, and also the constant example of socialism are all factors that compel the ruling circles of developing countries to adopt more flexible policies with regard to workers. There is, on the one hand, a widening of suppression capacities; when "normal" methods of dealing with social tensions fail one sees transitions to dictatorial rule and repressions. On the other hand, socio-economic reforms are being carried out, such as limitations placed on the utilization of the labour of women and children, the length of a working day is defined, and minimal wage rates are established. Naturally, the bourgeoisie seeks to violate worker legislation but the resistance of the working class and the influence of socialism prevent major and prolonged violations of established systems of relations between the two classes.

As methods and forms of exploitation of workers in developing countries draw closer to international standards this reduces the possibilities of the national bourgeoisie to extract absolute surplus value, even though in terms of levels of accumulation and the manner in which production is organized that method is currently most appropriate for the national bourgeoisie of Eastern countries. Accordingly, already in the early stages of industrial revolutions it must shift to the extraction of relative surplus value. This, however, requires an increase in the capital intensity of labour, increases in skills and in the technical knowledge of cadres, and improvements in the level of organization of production.

The national bourgeoisie must thus share its income from exploiting their countries' natural and labour resources with both precapitalist exploiting classes and foreign monopolies. This produces higher prices for fixed and circulating capital and hence a slow rate of increase in relative surplus value. Accordingly, profit rates are then lower than in the corresponding periods of the West's industrial revolution. This leads the national bourgeoisie to widen its cooperation with foreign monopolies in order to attract additional resources. At the same time limited self-growth rates of capital reduce

the rate of capitalist and technical transformations of the economy.

But the difficulties of capitalist and technical evolution in Eastern countries are not limited to lower rates and possibilities of capital's self-growth. Important though this may be equally important difficulties result from the transformation of capital from a monetary form to a production one and by the manner in which capital itself functions as a socio-economic category in developing economies.

Newly independent countries must import not only a large part of the fixed capital that they need but also technical know-how. This is why even when a country produces its own capital equipment (for example, India, Singapore, Turkey) it is constructed in accordance with international standards. As a result it is international standards rather than such local factors as the price of labour power, the absorption capacity of domestic markets and technological potential that determine such basic parameters of machinery and equipment produced in Eastern countries as productivity, price, scale of output, capital-labour ratio, and optimal size. Such an orientation requires levels of concentration or centralization of capital and levels of capital advances that match those in supplying countries. This largely precludes the classical entrepreneurial sequence, namely, first, small-scale production, then manual forms of factory production and then machine forms of factory production. The owners of the first two are separated from machine factory owners by investment and technical barriers, which are too high for them.

The large size of initially advanced capital in developing countries reflects not only economic and technical factors but other external factors as well. Above all non-petroleum-exporting developing countries are experiencing continually deteriorating terms of trade—that is the different growth rates and even the different direction of price movement as far as goods from capitalist countries and those of developing countries are concerned. As a result a developing country exporting raw materials must continually sell larger physical volumes of its product to purchase a given volume of industrial goods. This is why monetary units that are spent in developing and capitalist countries for constructing identical industrial projects are in fact unequal: in the case of developing countries it requires greater expenditures of their net social product.

In addition the copying of foreign equipment and use of foreign know-how is often linked to credits and technical services of foreign monopolies. This enables them to raise prices on fixed capital above their average world level. Finally it has already been noted that because of their economic underdevelopment the organization of modern production activities in Eastern countries requires larger expenditures on the creation of passive elements of fixed capital. Accordingly similar production facilities are more expensive in developing countries than in Western Europe's and North America's capitalist countries.

Absolute and relative increases in the value of constant capital in response to both objective and subjective factors are equivalent to increases in the organic composition of capital in developing countries. This reduces rates of surplus value and profit rates. In principle this may be compensated by reducing the value of circulating capital, particularly of variable capital.

In fact, however, there is also a relative increase in the volume and in the value of circulating capital in developing countries by comparison with the corresponding period of the industrial revolution in the West. This is not only because larger optimal dimensions of fixed capital or increases in its productivity require corresponding adjustments in circulating capital. The principal cause is a longer working cycle in industry.

In the early stages of the West's industrial revolution light and food industries played a leading role. They were industries in which one could buy raw materials one day and sell finished products the next. Accordingly, circulating capital represented a relatively modest part of the operating capital. In Eastern countries, on the other hand, all stages of a technical reequipment of their economies have been "compressed", as it were, and must take place more or less at the same time. A joint development of a variety of branches of economic activity, including heavy industry and agriculture, where the production cycle is especially long, produces a lengthening of the production cycle and thus increases the relative weight of circulating capital.

The relative cost of many types of raw materials, fuels and auxiliary materials has also increased. In order to stimulate agricultural output and raise the incomes of the agrarian bourgeoisie high prices have been established for food and especially grain in many developing countries that ex-

ceed the world level. This in turn increases the prices of all agricultural raw materials. Higher prices for fuel, on the other hand, and also auxiliary materials stemmed directly from the world energy crisis.

The technical reequipment of the national economies of developing countries also depends on world markets for purchasing both capital equipment and the many elements of circulating capital that are needed to maintain reproduction activities. Given the chronic deficits in the balances of payments in many developing countries, the need to rely on financial assistance or else commercial credit in financing imports produces a tendency to import a larger volume of elements of circulating capital than is needed to meet normal current requirements. This increases stocks of raw materials, semi-manufactured goods, and of spare parts, as well as the corresponding costs of interest payments and also storage. Often a dependence on specific suppliers that precludes competition also leads to still higher prices.

In estimating the extent to which the increased value of circulating capital exerts its influence and relevant consequences one should also consider specific aspects of changes in the price and value of labour power. The higher food prices that were noted produce relative increases in the cost of workers' means of livelihood and that of their families, and hence in the value of labour power. In a sense that increased value of variable capital is a type of tribute that national bourgeoisie must pay to precapitalist rural exploiting classes.

In addition given a low level of literacy and culture of the greater part of the population the training of skilled cadres requires high levels of expenditure, and that also contributes to increasing the value of labour power. Finally, the higher level of organization and of consciousness of the working class than was the case in the corresponding period of the industrial revolution in Western European countries serves to reduce the disparity between the value of labour power and its price that was so characteristic in the past for the colonially dependent periphery. Yet all these factors largely influence the working class that is primarily concentrated in the modern sector.

This produces a sharp rise in the volume of initially advanced capital in the sphere of material production in relation to per capita national income and average worker wages. This limits the range of persons who are able to effect

a transition to modern forms of entrepreneurship in Eastern countries. Accordingly in most developing countries the entrepreneurial bourgeoisie in material production is largely recruited from traditional exploiting classes and also persons who perform mediating functions for foreign companies. In the least developed countries only the national state is able to engage in modern forms of entrepreneurship.

As for small-scale commodity producers who have played such a tangible role in the development of capitalist entrepreneurship in Western Europe and North America, possibilities for their capitalistic transformation in developing countries are greatly limited by high investment and technical barriers. As a result their transformation into capitalist entrepreneurs is largely characteristic of the sphere of services and of circulation.

Thus the national bourgeoisie is relatively less numerous in Eastern countries than was the case in Western European countries at the corresponding stage of the industrial transformation. However, the average volume of individual capital (in relation to the absorption capacity of domestic markets and also per capita income) is higher. At the same time its insufficient concentration and centralization by comparison with world standards encourages a much greater emphasis on its investment in the sphere of services and circulation than was the case in Western Europe and North America. It is this that provided the grounds for assertions to the effect that the Eastern bourgeoisie is especially parasitic.

At the same time the higher average volume of socially necessary operating capital, the initially high level of its organic composition and associated decline in its surplus value and profit rates have placed additional obstacles to the technical reequipment of developing countries. Since the introduction of modern means of production has frequently implied reduced profit rates by comparison with precapitalist operations, it was not always possible to effect such a transition on the basis of unregulated market laws. Accordingly comprehensive measures for the technical reequipment of economies required facilitating measures by the state. By providing easy credits for purchases of machines and equipment, increasing import duties and establishing high purchasing prices for the output of mechanized enterprises the state helped increase profit rates in the sector of modern means of production and thus reallocate capital to modernized branches and especially manufacturing industries. It

should be noted that the government measures extended beyond the changes in the flows of national capital. As the profitability of industry increased a growing share of foreign investments began to move in the same direction.

Such a reliance on price mechanisms and on credit and fiscal systems generated vast redistributive processes. Generally incomes of traditional sectors and of consumers were redistributed to capitalist sectors. This obviously held back the socio-economic transformation of lower structures and also the widening of domestic markets. At the same time there was a relatively rapid development of the sector of modern productive forces. In short, the redistributive processes themselves helped maintain the polarization of economic patterns and further deepened corresponding disparities.

Increases in the optimal sizes of enterprises and increasing value of fixed capital led to increases in its organic composition. While the first two factors primarily influenced the specific traits and rates of development of the national bourgeoisie, the third primarily influenced the working class. In the context of developing economies that process was marked by at least two specific traits.

The first was that rather than experiencing a gradual increase in the organic composition of capital developing countries relied on forms of capital that were marked by a high level of organic composition from the very first. Given their initial low level of industrial development by the time of political independence and relatively high rates of industrial growth, increases in the organic composition of capital led not so much to a displacing of living labour in modern sectors (industry, mechanized transportation, electrical power, communications) as to a low labour absorption capacity of new investments. In other words while technological unemployment did not yet emerge new productive units attracted only limited numbers of additional workers.

A second characteristic was that increases in the organic composition of capital based on the development of capitalism and capitalist production led to a stagnation or else a direct disorganization of lower forms of production (cottage industries, crafts, etc.). This was attributable to the lower prices and higher quality of goods and services of modern capitalist industry and often to the impossibility of employing products of traditional industries in modern production activities. In addition the dissemination of the standards of

Western culture and fashions contributed to a decline in demand for some traditional consumer goods.

A highly contradictory situation thus developed. While the development of capitalism and of capitalist forms of production increased unemployment in traditional sectors it only produced a modest additional demand for living labour. This situation was further aggravated by the "demographic explosion" and by the destruction of traditional sectors as capitalism developed.

The accelerating rate of population growth was accompanied by corresponding (or nearly corresponding) increases in the number of able-bodied persons seeking employment. In confronting the low labour absorption capacities of modern capitalist enterprise, the overwhelming part of such population increments was forced to engage in traditional sectors. In countries in which extensive methods of development are no longer possible (this would be the majority of Eastern countries) this has led to declining labour productivity, a growing hidden agrarian overpopulation and growing partial unemployment.

Following the beginning of the "green revolution", the more rapid development of capitalism in agriculture, traditional relations began to disintegrate in the villages of Eastern countries (large families, traditions of mutual help within agrarian communities). As it led to a cessation of support to persons who were already deprived of means of production the disintegration of traditional relations transforms them from partially unemployed to fully unemployed persons. As they lose their means of livelihood in the villages such unemployed persons begin to migrate into cities. As a result unemployment, pauperism and lumpen proletarians gradually spread within the cities as well, transforming them into principal centers of social tension.

This defines one of the major contradictions of the industrial revolution in developing countries as both socio-economic and technical categories. As it gradually occupies increasingly important positions within the sphere of production (of gross and net product) capitalist machine production absorbs a declining part of the active population. As the organic composition of capital increases, the disparity between its share in production and in employment increases.

Naturally the actual magnitude of that disparity depends on a number of such external and domestic factors as the presence of unused natural resources, the extent and forms

of the country's participation in the international division of labour, and the nature of ties to foreign monopolies and imperialism. These are the factors that explain the smaller disparity between capitalist production and employment in petroleum-exporting countries of the Middle East and in a number of relatively small states of the Far East and Southeast Asia (for instance, Singapore). Conversely, in countries of South Asia and in the largest countries of Southeast Asia this disparity is very large.

Yet in spite of all these differences the present stage of the industrial revolution in Eastern countries is marked by a common characteristic feature, namely, the impossibility of involving the greater part of the active population into modern production and the preservation of sectors based respectively on modern and traditional means of production. The dominance of capitalist production, the involvement of small-scale and very small units into a system of relations with capitalist economies, and finally the embourgeoisement of traditional exploiting classes cause the circulation sphere to extend the operation of capitalist laws to the pre-bourgeois forms of economic activity. Traditional sectors are gradually becoming enveloped in capitalist production relations, are differentiated and contribute increasingly to the expanded reproduction of capital. In that sense the capitalist sphere in developing countries is much wider than capitalist production itself.

The existence of traditional sectors experiencing a gradual capitalization is not a new development. Such sectors continued to exist for more than a hundred years in Western Europe and North America after the beginning of their industrial revolution. A final transition to a system of industrial productive forces became possible only as a result of a mass emigration, the conquest of markets in colonial and dependent countries, and changes in the demographic situation. Since in the case of today's developing countries the first factors are no longer available one may expect a more prolonged preservation of traditional sectors. That in turn also creates possibilities for a much greater preservation of precapitalist relations.

This explains the highly contradictory nature of processes generated by the development of capitalism in Eastern countries. One might expect that the further extension of capitalism into new territories would help strengthen it as a socio-economic system. Yet today capitalism can continue to de-

velop only through deep internal contradictions. On the one hand the emergence of capitalism in developing countries requires that unequal relations with imperialism be overcome. But as the experience with OPEC countries has shown a greater equality of developing countries limits imperialism's capacity to manoeuvre in relation to its own population and produces prolonged structural and social crises. On the other hand the existence in developing countries of very numerous population groups whose position deteriorates as capitalism develops produces a greater measure of social instability and tensions. This requires constant economic, social and even military-political support of the ruling classes of developing countries on the part of imperialism. This, too, serves to further constrain imperialism's resources and manoeuvring capacity.

Thus rather than strengthening it as a socio-economic system the extension of capitalism to new territories intensifies its internal contradictions and undermines its stability. This creates possibilities for repeated structural and social crises that threaten to remove individual components from that system.

Chapter I

[1] Henry de Beltgens Gibbins, *The Industrial History of England*, Methuen and Co., London, 1890, pp. 152-153. Karl Marx explains this in the following way: "On the whole it can be assumed that under the cruder, precapitalist mode of production, agriculture is *more productive* than industry, because nature assists here as a machine and an organism, whereas in industry the powers of nature are still almost entirely replaced by human action." (Karl Marx, *Theories of Surplus-Value*, Vol. IV of *Capital*, Part II, Progress Publishers, Moscow, 1975, pp. 109-110).

[2] In Western economic literature the appearance of the internal combustion engine is frequently described as the "second technical revolution" (Ernest Mandel, *Late Capitalism*, Verso Edition, London, 1978). Indeed without its introduction it would not have been possible to completely mechanize transportation and agriculture. Still this does not appear to provide grounds for distinguishing a separate stage in the industrial revolution. For the appearance of a new engine produced neither changes in working machines nor in methods of production.

[6] *Man—Science—Technologies (the Findings of a Marxist Analysis of the Revolution in Science and Technology)*, Moscow, 1973, p. 30 (in Russian).

[4] While in the United States "prior to 1850 machinery was extensively employed in many lines of industry, the rapid development of our present system of manufactures may be considered as dating from that year." (Carroll D. Wright, *The Industrial Evolution of the United States*, Russell & Russell, New York, 1967, p. 189): "After 1825 ... France was able to equip itself more rapidly with machines than heretofore... With the introduction of machine tools, the French made rapid progress ... in producing their own machines. 'Their machinery was very inferior to ours ten years ago but now it is inferior to a small extent only,' was the verdict of an expert at the Select Committee of 1841." (L.C.A. Knowles, *Economic Development in the Nineteenth Century. France, Germany, Russia, and the United States*, George Routledge & Sons, Ltd., London, 1947, p. 137); "The acceleration in German industrial development ... is perceptible from about 1835... Down to the forties she went through no industrial revolution, like that ... in England." (J. H. Clapham, *The Economic Development of France and Germany. 1815-1914*, Cambridge University Press, 1923, pp. 96, 279).

[5] In the late 18th century the rate of accumulation in England reached 6-7 per cent, and by 1835 it reached 8-9 per cent. It exceeded 10 per cent only by 1855. "However, most recent writers have agreed that at present there is little theoretical or historical justification for assuming that the industrial revolution was the result of a notable acceleration in capital accumulation..." (*Capital Formation in the Industrial Revolution*, Methuen & Co., Ltd., London, 1972, p. 19).

[6] In the present context we are abstracting from the system for redistributing the social product, for it could only influence the composition of consumption but not its absolute magnitude.

[7] While joint stock companies were relatively widespread already in the 18th century, attitudes towards such companies were reserved. "The only trades which it seems possible for a joint stock company to carry on successfully, without an exclusive privilege, are those, of which all the operations are capable of being reduced to what is called a routine, or to such a uniformity of method as admits of little or no variation. Of this kind is, first, the banking trade; secondly, the trade of insurance from fire, and from sea risk and capture in time of war; thirdly, the trade of making and maintaining a navigable cut or canal; and, fourthly, the similar trade of bringing water for the supply of a great city." (Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, George Bell and Sons, London, 1887, Vol. II, p. 277).

[8] "A capital market dominated by London bankers and traders and by landed proprietors was unresponsive to the needs of industry... Factory industry, after all, was unfamiliar, small-scale and speculative, and the collateral it could offer, especially since its greater need was to finance work in progress rather than fixed assets, was not such as to reduce the correspondingly high risk premium." (J. D. Gould, *Economic Growth in History. Survey and Analysis*, Methuen & Co., Ltd., London, 1972, p. 163).

[9] A. Tsygichko, "An Economic Puzzle From the Past" in: *Mirovaya ekonomika i mezhdunarodnye otnosheniya* (World Economy and International Relations), No. 7, 1969, pp. 43-45.

[10] Werner Sombart, *Der moderne Kapitalismus*, Bd. III. Zweiter Halbband, *Das Wirtschaftsleben im Zeitalter des Hochkapitalismus*. Verlag von Duncker & Humblot,, München und Leipzig, 1927, pp. 772-774.

[11] F. Ya. Potemkin, *Industrial Revolution in France*, Vol. I, Moscow, 1971, p. 326 (in Russian).

[12] Roger Burlingame, *Backgrounds of Power*, Charles Scribner's Sons, Ltd., London, New York, 1949, p. 317.

[13] In 1814 a great many manufacturers made their own machinery. (J. H. Clapham, Litt. D., *An Economic History of Modern Britain. The Early Railway Age, 1820-1850*, Cambridge, at the University Press, 1926, p. 152).

[14] Paul Mantoux, *La révolution industrielle au XVIIIe siècle. Essai sur les commencements de la grande industrie moderne en Angleterre),* Editions Genin, Paris, 1959, pp. 249-252, 299-309, 346.

[15] In 1961 the average number of employed for an industrial enterprise was generally 45 persons (Ya. Kvasha, "Concentration of Production and Small-Scale Industry" in: *Voprosy ekonomiki* [Problems of Economics], No. 5, 1967, p. 77). Thus even 128 years later the average size of industrial enterprises measured in terms of number of workers employed was 3 times smaller than in textile subbranches in 1833.

[16] Such an assumption is fully justified, for the profits that are spent on consumption by the owner of a hypothetical average enterprise would be 7.5 times yearly per capita income and 3.75 times his worker's yearly wage earnings.

[17] In countries that initiated their industrial transformation after England competition from English industry appears to have been so intense that in spite of protectionism it could only be withstood by industries whose level of concentration and centralization was comparable to that of corresponding industries in England. For example in the United States capital investments per worker in the textile industry and in ferrous metallurgy were higher than average by 46 per cent and 58 per cent respectively, while the invested capital per enterprise was 15.6 and 10.7 times higher than average.

[18] L. I. Luboshits, *Problems in the Marxist-Leninist Theory of Agrarian Crises*, Moscow, 1949, pp. 125, 127 (in Russian).

[19] M. A. Sirinov, *Essays on Agrarian Statistics*, Vol. I, *Statistics of Western European Farms,* St. Petersburg, 1912, pp. 78, 116, 175, 208, 238, 298, 318 (in Russian).

[20] *Ibid.,* pp. 88, 152, 204, 216, 245, 320.

[21] Werner Sombart, *op. cit.*, p. 349.

[22] M. A. Sirinov, *op. cit.*, Vol. I, pp. 89, 153.

[23] Earnest Ludlow Bogart, *The Economic History of the United States*, Longmans, Green and Co., New York, 1916, pp. 310, 332.

[24] *Ibid.*, p. 310.

[25] J. L. Hammond, and B. Hammond, *The Skilled Labourer. 1760-1832*, Longmans, Green and Co., London, 1920, p. 147.

[26] F. Ya. Polyanski, *The Economic History of Foreign Countries (The Age of Capitalism)*, Moscow, 1961, p. 271 (in Russian).

[27] Henry de Beltgens Gibbins, *op. cit.,* pp. 161-162.

[28] Werner Sombart, *op. cit.*, p. 775.

[29] The use of machines in agriculture is often associated with factors other than falls in production costs. For example, the wide use of threshers towards the middle of the 19th century was attributable to declining expenditures of living labour, declining losses of grain, and possibilities for taking fuller advantage of market situation. Accordingly, the introduction of machines could have continued but at substantially lower rates.

[30] B. Ts. Urlanis, *Population Growth in Europe (A Study in Estimation)*, Moscow, 1941, pp. 236, 238, 243 (in Russian).

[31] *Ibid.*, pp. 236, 246.

[32] Calculated according to W. S. Woytinsky and E. S. Woytinsky, *World Population and Production. Trends and Outlook*, The Twentieth Century Fund, New York, 1953.

[33] In England the crises of 1825, 1830, and 1837 produced a massive wave of emigration (see: L. A. Mandelson, *The Theory and History of Economic Crises and Cycles*, Vol. I, Moscow, 1959, p. 360, in Russian).

[34] Following the crisis of 1863 one could witness the shortage of labour and wage increases. Emigration was responsible for those phenomena. (M. I. Tugan-Baranovski, *Periodic Industrial Crises*, St. Petersburg, 1914, p. 434, in Russian).

[35] Yu. Kuchinski, *Working Conditions in Capitalist Countries*, Moscow, 1954, p. 60 (in Russian).

[36] Yu. Kuchinski, *Essays on the History of the World Economy*, Moscow, 1954, pp. 27, 49, 61 (in Russian).

[37] In those cases in which price competition could not clear the way for factory goods industrial powers relied on direct military actions or else the threat of force. There are many such examples throughout the 19th century.

[38] For example, raw materials account for approximately one-half of material expenditures in the cotton textile industry while fuel and other materials account for the other half; in ferrous metallurgy these ratios are 1/3 and 2/3, respectively. This is why the development of ferrous metallurgy stimulates the formation of a wider complex of related branches than does cotton textile industry.

[39] A. Sergeeva, "Changes in the Composition of the Working Class in France" in: *Mirovaya ekonomika i mezhdunarodnye otnosheniya (World Economy and International Relations)*, No. 12, 1958, p. 49; see also E. Varga, *Essays on Problems of the Political Economy of Capitalism*, Moscow, 1964, pp. 134-135 (all in Russian).

[1] Egypt was an exception: by 1837 there were 29 cotton textile factories equipped with French machinery and driven by animal power. These factories were financed by government capital investments and served the domestic market. Such an exceptional situation appears to be attributed to Egypt's preservation of its independence from West European powers at that time. (R. al-Baravi, M. Kh. Uleish, *The Economic Development of Egypt in Modern Times,* Moscow, 1954, p. 70, in Russian).

[2] This is illustrated by the case of cotton. Its processing in locations where it was grown eliminated the need for pressing it. When it began to be exported to Europe special cotton-pressing factories were established.

[3] *World Industry Since 1960: Progress and Prospects*, United Nations, New York, 1979, p. 271.

[4] That classification of Eastern crafts was proposed by A. P. Kolontaev (see: A. P. Kolontaev, *Lower Forms of Production in Countries of South and Southeast Asia,* Moscow, 1975, Ch. I, in Russian).

[5] A characteristic observation is that of D. R. Gadgil, a leading Indian economist: "One of the most harmful effects of a foreign rule is the imposition on the conquered peoples of the ideals of the conquerors; and the newly created Indian 'bourgeoisie' showed itself during the latter half of the last century extremely ready to accept European standards and to pour scorn on everything Indian... To follow European fashions was considered the hallmark of enlightenment. Consequently the products of indigenous industries suffered." (D. R. Gadgil, *The Industrial Evolution of India in Recent Times*, Oxford University Press, Amen House, Geoffrey Cumberlege, London, 1954, p. 39).

[6] The preservation of traditional power structures and of corresponding forms of redistribution of the net product in Eastern societies possessing at least formal independence (China, Thailand, Iran) made possible a far higher level of activity of urban crafts in the early twentieth century than in colonies.

[7] "Traditional manufacturing by no means disappeared. It is still the dominant form of manufacturing industry." (Gunnar Myrdal, *Asian Drama. An Inquiry Into the Poverty of Nations*, Vol. II, Pantheon, A Division of Random House, New York, 1968, p. 1100).

[8] Higher rent taxes "seriously imperil reproduction of the conditions of labour, the means of production themselves, rendering the expansion of production more or less impossible and reducing the direct producers to the physical minimum of means of subsistence. This is particularly the case, when this form is met with and exploited by a conquering commercial nation..." (Karl Marx, *Capital,* Vol. III, Progress Publishers, Moscow, 1977, p. 796).

[9] "...In any given economic formation of society, where not the exchange-value but the use-value of the product predominates, surplus-labour will be limited by a given set of wants which may be greater or less.... But as soon as people, whose production still moves within the lower forms of slave-labour, corvée-labour, & c., are drawn into the whirlpool of an international market dominated by the capitalistic mode of production, the sale of their products for export becoming their principal interest, the civilised horrors of overwork are grafted on the barbaric horrors of slavery, serfdom, & c." (Karl Marx, *Capital*, Vol. I, Progress Publishers, Moscow, 1965, p. 226).

[10] These stages in the subordination of direct producers and in the evolution of merchant and usury capital itself are described by N. A. Simoniya in *Merchant and Usury Capital in Asia*, Moscow, 1973, Chs. III-V (in Russian).

[11] In addition the very character of non-economic compulsion changed, since interest payments on money-lending can also be based on transitional forms and appear as a combination of both non-economic and economic relations of exploitation.

[12] Karl Marx, *Capital*, Vol. III, pp. 619-623.

[13] That governing principle was especially evident in that part of the market product that interacted with the world market or else served the colony's own capitalist structure.
With regard to the other part it was expressed indirectly.

[14] Paul A. Baran, "On the Political Economy of Backwardness", *The Economics of Underdevelopment*, Oxford University Press, London, 1958, p. 83.

[15] In a number of countries of South and Southeast Asia in the late 19th century some landowners transformed their feudal estates into joint stock companies. Feudal rent thus assumed the form of dividends.

[16] The owners of the earliest mechanized enterprises in India and China often hired workers only to operate steam engines, while workshops were leased. Workshop lessees then hired other workers through subcontractors. The latter often made use of advanced payments in order to prevent workers from leaving (see: Daniel Houston Buchanan, *The Development of Capitalistic Enterprise in India*, The Macmillan Company, New York, 1934, pp. 121-122).

[17] "Initially, the impulse from outside benefits those sectors directly linked with foreign trade, mainly through the increase in remuneration other than wages... But once the economy has succeeded in reaching levels of productivity which permit a considerable amount of capital formation, the relative importance of external stimuli on the process of growth will tend to diminish." (C. Furtado, "Capital Formation and Economic Development", *The Economics of Underdevelopment*, Oxford University Press, London, 1958, p. 320).

Chapter III

[1] The problem of viewing the metropolis-colony system in terms of an integral dialectic unity of opposites was first formulated by N. A. Simoniya, in his study *Merchant and Usury Capital in Asia*, pp. 12-13. It was subsequently elaborated in his monograph *Eastern Countries: Approaches to Development*, Moscow, 1975, pp. 161-164 (all in Russian).

[2] Nevertheless, in a number of cases purely internal factors could also operate within colonies. In particular the development of natural structures could be entirely attributed to the operation of internal governing principles.

[3] *Economic Consequences of the Size of Nations*, Macmillan & Co., Ltd., London, St. Martin's Press, New York, 1960; Hollis Chenery and Moises Syrquin, *Patterns of Development, 1950-1970*, World Bank by Oxford University Press, London, 1975; L. V. Vinogradova, *The Developing World: Major Problems of Small Countries*, M., 1977 (in Russian).

[4] Based on: UNCTAD. *Handbook of International Trade and Development Statistics*, United Nations, New York, 1976, pp. 333-339.

[5] "Through its monopolistic position in colonies the bourgeoisie of metropolises relied on non-economic forms of exploitation for 10-12 per cent of the entire tribute that financial capital received from colonial countries before the First World War (V. Rymalov, V. Tyagunenko, *Underdeveloped Countries in the World Capitalist Economy*, Moscow, 1961, p. 19, in Russian).

[6] It is on a transition from non-economic to economic methods of exploitation that the transformation of colonialism to neocolonialism is based.

[7] "...The state can on no account be something inert, it always acts and acts very energetically, it is always active and never passive." (V. I. Lenin, "The Economic Content of Narodism and the Criticism of It in Mr. Struve's Book", *Collected Works*, Vol. 1, Progress Publishers, Moscow, 1977, p. 355).

[8] Higher prices were not always to the advantage of small-scale producers. With the help of import restrictions large-scale capital was frequently able to establish monopolistically high prices. As a result while small-scale producers gained from increased prices as producers, they often lost as consumers.

[9] "...The share of Asia's 'non-petroleum exporting' countries in world trade declined from 11.1 per cent in 1938 to 9.3 per cent in 1960, 4.0 per cent in 1970, and then rose somewhat to 6.3 per cent by 1976" (I. S. Diakova, *The Foreign Trade of Asia's Developing Countries*, Moscow, 1978, p. 8, in Russian). Between 1950 and 1960 the share of export in the GDP of Asian and North African countries declined from 12.2 to 11.8 per cent, while between 1961 and 1970

it increased to 13.5 per cent, largely because of increased petroleum prices in the late 1960s (Calculations based on: *Capitalist and Developing Countries. A Reference Manual*, Moscow, 1973, in Russian).

[10] "...It is precisely in developed capitalist countries that the most substantial efforts to strengthen domestic sources of raw materials are currently being made. While in the second half of the 1960s that group of countries spent 70 per cent of the capitalist world's total expenditures on the exploration of new local deposits, figure rose to 85.6 per cent in the first half of the 1970s. During the same period the share of similar expenditures on the territories of young states declined from 30 per cent to 14 per cent... This ... reflects a striving by imperialist powers to reduce their dependence on imports from developing countries..." (P. Khvoinik, "Transnational Corporations: an Analysis by UN Experts", in *Mirovaya ekonomika i mezhdunarodnye otnosheniya* [*World Economy and International Relations*], No. 9, 1979, pp. 104-105).

[11] Robert S. McNamara, *Address to the Board of Governors*, Washington, D.C., September 30, 1974.

[12] "...While OPEC provides economic assistance to developing petroleum-importing countries it does not cover that part of the balance of payment deficit of developing countries outside OPEC that derives from increased petroleum prices" (R. N. Andreasyan, A. D. Kaziukov, *OPEC in the World of Petroleum*, Moscow, 1978, p. 5, in Russian).

[13] For a further discussion of tendencies in foreign economic assistance to newly liberated countries see: *Eastern Countries Today*, Vol. 2, Moscow, 1974, pp. 522-533, in Russian.

[14] "...A strategy of collective self-reliance embodies the potential for joint action by developing countries that will strengthen their capacity to negotiate with developed countries and reduce their dependency on them and that intensifying trade and economic linkages among developing countries is part of the structural change needed for a more rational international division of labour, leading to a more efficient use of world resources..." (*UNCTAD V. Arusha Programme for Collective Self-Reliance and Framework for Negotiations*, Manila, May 1979, p. 8). It would appear, however, the resources of the "collective self-reliance" are often exaggerated in economic literature. In reality the large measure of involvement of developing countries into the world capitalist economy and international division of labour places fairly strict limits in their independence from the world market. At the same time the preservation of capitalist relations within that group of countries should favour those who are most developed. In their case such an independence could help them play an imperialist role.

[15] "...Relations are evolving among developing countries that are based on capitalist principles but yet are free from pronounced forms of exploitation" (V. Tyagunenko, *International Division of Labour and Developing Countries*, Moscow, 1976, p. 257, in Russian).

[16] "Specific features attending the emergence of new states are reflected in the increased importance of the state's economic function. This becomes a means for achieving economic independence, for overcoming economic backwardness, and for preserving sovereignty" (S. I. Tyulpanov, *Essays in Political Economy. Developing Countries,* Moscow, 1969, p. 184, in Russian).

[17] "The essence of the state's economic function in the process of social reproduction is its direct and indirect participation in the formation of new production relations and in changing the character of productive forces in 'third world' countries" (O. D. Ulrikh, *"The Third World": Problems in the Development of the State Sector,* Moscow, 1975, p. 20, in Russian).

[18] "...It is agriculture which finances industrialization" (W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labour", in *The Economics of Take-off into Sustained Growth,* Macmillan, London, 1963, p. 434).

[19] "To solve the problem of employment requires a sufficiently high aggregate level of capital investment that is able to not only increase labour productivity but also the number of job openings." (Hoós, János, *A Gazdasági Növekedés Alapvetö Tényezöi* [Factors of Economic Growth], Budapest, Körgazdasági és Jogi Könyvkiadó, 1970, in Hungarian).

[20] "National governments... terminated earlier restrictions on the national bourgeoisie, limited foreign capital in certain sectors, and reduced the freedom of action of the exogenous bourgeoisie and partly exiled it. The subsequent increased scope of the government's economic activities and especially the state sector's growing role in infrastructures improved those countries' overall economic climate. Objectively this served to widen the foundations of private enterprise" (*Developing Countries: Governing Principles, Tendencies, Prospects*, Moscow, 1974, p. 167, in Russian).

[21] In Eastern countries one observes two types of genesis for that stratum. In the capitalistically most developed countries the bureaucratic bourgeoisie originates primarily from persons that come from the bourgeois class and who occupy high positions precisely because of their origin. Their high income level derives from both salaries and incomes from "family" businesses, even though they do not stop at embezzling public funds and bribe-taking corrupt activities. In the less developed countreis, of which Indonesia provides the most vivid example in Asia, the major source of income of the higher bureaucracy is the embezzlement of public funds and payments for corrupt activities. A capitalization of these incomes then transforms that class into a bourgeoisie independently of their initial social origins.

[22] *World Population Prospects as Assessed in 1963,* UN, New York, 1966, p. 133; *World Population Prospects as Assessed in 1973*, UN, New York, 1977, p. 92.

[23] Cf.: L. I. Reisner, *Developing Countries: an Essay in the Theory of Economic Growth,* Moscow, 1976, pp. 252-254 (in Russian).

[24] *Economic Bulletin for Asia and the Far East*, Vol. III, Nos. 1-2, Bangkok, United Nations, November, 1952.

[25] The consequences of such a diversion of national resources are shown by data cited by Angus Maddison. His calculations indicate that in 1950-1965 52 per cent of the increment of the national income of developing countries was needed to sustain a constant level of per capita income, 33 per cent was needed to maintain a constant capital-labour ratio and only 15 per cent was available to increase that ratio. Angus Maddison, *Economic Progress and Policy in Developing Countries,* W. W. Norton & Company, Inc., New York, 1970, pp. 39, 44, 53.

[26] In Soviet economic science there are two concepts of extensive methods of development. One refers to increased employment under a given capital-labour ratio while the other refers to a growth in employment and productivity under an increased capital-labour ratio. The present study refers to the first of these.

[27] The IBRD's President, Robert S. McNamara has stated that "Legislation dealing with such reform has been passed—or at least been promised—in virtually every developing country. But the rhetoric of these laws has far outdistanced their results. They have produced little redistribution of land, little improvement in the security of the tenant, and little consolidation of small holdings." (Robert S. McNamara, "Striving for a Decent Human Life", *Eastern Economist*, New Delhi, October 5, 1973, Vol. 61, No. 14, p. 642).

[28] This included a prohibition of certain types of consumption or activities, the preservation of indentured forms of servitude, and also special forms of relations between farmers and craftsmen. These relations, which emerged in the period of early class states and were sanctioned by religion and traditions, have shown themselves to be extremely persistent.

[29] "...Agrarian reform, if carried out *without* further social reforms, will start a process of *differentiation* among the peasantry leading to even more disastrous consequences, namely, to the indebtedness of most of the rural population, the forced sale of lands allotted, the formation of a wide stratum of agrarian proletariat deprived forever of its means of production, and the growth of open unemployment." (T. Szentes, *The Political Economy of Underdevelopment*, Akadémiai Kiadó, Budapest, 1973, pp. 304-305).

[30] B. I. Slavnyi, *Problems of Employment in Developing Countries,* Moscow, 1979, p. 17 (in Russian).

[31] Yu. M. Osipov, *Financial Methods for Mobilizing Accumulations in Developing Countries,* Moscow, 1969, Ch. 2, para. 8 (in Russian).

[32] The most comprehensive calculations of this type—based on 359 commodities—were made by Nurul Islam, a prominent economist, for the economy of Pakistan. They indicate that the average level of domestic prices in Pakistan was 30 per cent higher than world prices, and that in the case of investment goods they were 60-70 per cent higher (cf: A. Maddison, *op. cit.*, pp. 193-194).

[33] "...Through its negative influence on market prices for grain (especially for wheat) it [economic policy—*G. Sh.*] produces a deterioration in the conditions of reproduction of farm units, particularly of small-scale producers who must then sell their grain at prices that are substantially below its value" (V. G. Rastyannikov, *Developing Countries: Food and Politics,* Moscow, 1968, p. 78, in Russian).

[34] In the opinion of ECAFE researchers by the mid-1960s food production per capita in countries of that region fell below its prewar level (*Economic Survey of Asia and the Far East*, 1966, Bangkok, United Nations Publication, 1967, p. 108).

[35] "...The exemption of entrepreneurs from payment of duties for a wide range of imported equipment, and also the overvalued exchange rate make capital 'cheaper'" (Yu. M. Osipov, *Developing Countries: the Financing of Their Economies and Inflation,* Moscow, 1978, p. 83, in Russian).

[36] S. K. Basu, *Theory and Practice of Development Banking, A Study in the Asian Context*, Asia Publishing House, London, 1965, pp. 51-52.

[37] It was generally the export sectors of colonial economies that participated in single reproduction cycle. In many colonies they consisted of enclaves.

[38] Studies in economic history have shown that during the first half of the 20th century rates of economic growth in Asian countries were slightly higher than rates of population growth. In short on the per capita basis there the reproduction was approximating simple reproduction.

[39] *Eastern Countries Today*, Moscow, Vol. 1, 1980, pp. 143-147 (in Russian).

[40] The role of international division of labour in strengthening the power of national bourgeoisie was a major factor in intensifying their contradictions with metropolises. Local bourgeoisie supported a shift away from the non-economic methods of exploitation that impeded their activities on domestic markets and sought to end the redistribution of profits to metropolises.

[41] It is symptomatic that the principal demands of the programme for a new international economic order advocated by developing countries concern improvements in export activities rather than in imports.

[42] With the exception of petroleum-exporting countries that tendency continues today.

[43] Calculated on the basis of *World Development Report 1980*, Washington, pp. 11, 334-335. Because of the crisis that share declined somewhat in the early 1980s.

Chapter IV

[1] In Marxist political economy the term "industrialization" may refer to two concepts; when used in the narrow sense it refers to the development of industries engaged in producing means of production, in a wider sense, however, it refers to a shift of the entire economy to the use of machine methods of production. It is then a synonym for an industrial transformation of the economy as a whole. In the case of developing countries industrialization was long understood in the sense of a general development of industries (extraction industry and manufacturing industries—heavy and light). But the wider meaning is also often given in those countries to the concept of "industry" itself: namely, one that includes hotels and warehouses. It is only in the 1970s that the meaning of that concept began to draw closer to the Marxist one (see: *World Industry Since 1960: Progress and Prospects. Special Issue of the Industrial Development Survey for the Third General Conference of UNIDO, New Delhi, 21 January-8 February, 1980,* United Nations, New York, 1979).

[2] Initially that concept was employed in the early decades of the twentieth century by R. Ch. Dutt one of "fathers" of Indian nationalism, in his *The Economic History of British India* (Kegan Paul. Trench, Trübner & Co., London, 1902) and *The Economic History of India in the Victorian Age* (Kegan Paul, Trench, Trübner & Co., London, 1906). In the 1930s it was elaborated in studies of the Indian National Planning Committee and in studies of Latin American economists (R. Prebisch, "For a Global Development Policy" in *BIKI,* 1968, Annex No. 3 [in Russian]; *National Planning Committee No. 1. Being an Abstract of the Proceedings and Other Particulars Relating to the National Planning Committee,* Bombay, 1939).

[3] See the statistical estimates of B. Bolotin published in the journal *Mirovaya ekonomika i mezhdunarodnye otnosheniya* (World Economy and International Relations), Nos. 5, 7, 8, 1979.

[4] *Monthly Bulletin of Statistics*, Vol. XXI, No. 11, November 1967.

[5] "The Scope for Regional Economic Co-operation in Asia and the Far East" in: *Economic Bulletin for Asia and the Far East*, Vol. XII, No. 3, 1961, p. 56.

[6] In such context the difference between developing countries and the Soviet Union in their approach to development strategies is particularly evident. In the case of the Soviet Union the dependence of industrialization on improvements in agriculture was clearly realized by all party bodies and economic agencies: "Agriculture is the basis for industry and its growth is the growth of industrialization's food and raw material basis. A prolonged growth in industry is objec-

tively impossible without a corresponding growth of agriculture." *CPSU in Resolutions and Decisions of Congresses, Conferences and Plenary Sessions,* Vol. 4, Moscow, 1970, p. 127, in Russian).

[7] V. N. Kurzanov, *The Industrial Development of Singapore*, Moscow, 1978, pp. 26, 33 (in Russian).

[8] I. V. Zhmuida, *The Industry of Pakistan,* Moscow, 1976, pp. 67-84 (in Russian).

[9] *Iran. Essays in Its Most Recent History,* Moscow, 1976, pp. 320-321 (in Russian).

[10] See: B. Bolotin, *op. cit.*

[11] *Industrial Development Survey. Special Issue for the Second General Conference of UNIDO,* United Nations, New York, 1974, p. 20.

[12] In most Eastern countries as a rule large-scale landowners did not manage their farms. The resulting absentee ownership produced a redistribution of incomes from landownership from villages to cities. In other words, the inequalities in property ownership in the villages before the "green revolution" expressed themselves primarily in the cities.

[13] ESCAP, DP/IMS/2, 1 August 1979, *Ad Hoc* Intergovernmental Meeting on Strategies for the 1980s, 27-31 August 1979, Bangkok, *Development Strategies in the 1980s in the ESCAP Region*, pp. 11-12.

[14] The term "external economies" generally refers to forms of joint use of common basic and social infrastructures by several enterprises that reduces required capital investments or else increases the return on investment. Examples include improvements in the utilization of rolling stock through greater regularity and larger volume of services; the use of waste products of one industry as primary inputs into another leading to a decline in the development of extractive industries; and increases in the scale of production with the emergence of additional consumers in new industries.

[15] This is precisely why Albert O. Hirschman writes that "perhaps the underdeveloped countries are not so foolish and so exclusively prestige-motivated in attributing prime importance to this industry." (Albert Hirschman, *The Strategy of Economic Development*, Yale Universiy Press, New Haven, 1958, p. 108).

[16] In Soviet economic literature a comprehensive examination of problems relating to the establishment of multi-sectoral industrial complexes in developing countries is given by G. A. Lukichev in a Candidate Dissertation entitled *Problems in Selecting and Implementing Industrialization Strategies in Developing Countries* (the case of Iran and Pakistan), Moscow, 1979 (in Russian).

[17] As it turned out petroleum-exporting countries were prepared for the establishment of multi-sectoral industrial complexes in only two respects: they possessed the required financial resources and also

strong centralized state power. The productive realization of capital, on the other hand, and the supply of skilled cadres is to be contributed by external sources. In the conditions of economic and social underdevelopment multi-sectoral complexes were poorly linked with the remaining economy; in the present context their contribution to economic development took the form of increased foreign exchange flows.

[18] Difficulties in selecting a key industry are discussed in a monograph by E. A. Bragina entitled *Developing Countries: State Policies and Industry*, Moscow, 1977, pp. 50-71 (in Russian).

[19] "...If the market, or the sphere of exchange, expands, then the volume of production grows and tends to become more differentiated." (Karl Marx, *A Contribution to the Critique of Political Economy*, Progress Publishers, Moscow, 1978, p. 205).

[20] In the theory of development of peripheral economies elaborated by Raul Prebisch, Celso Furtado, and other Latin American economists it is proposed to compare the returns on capital investments in import-substituting and export-oriented activities in developing countries rather than relative production costs of local and imported industrial products. In particular, R. Prebisch writes "It is not really a question of comparing industrial costs with import prices but of comparing the increment of income obtained in the expansion of industry with that which could have been obtained in export activities had the same productive resources been employed there." ("Commercial Policy in the Underdeveloped Countries" in: *The American Economic Review*, Vol. XLIX, No. 2, May 1959, p. 255). In a situation in which export prices are continually declining the return on capital in import-substituting types of production proves to be higher than in the case of export-oriented production, even if costs of production of the import-substituting products are higher than those of similar imports. This is why, in the opinion of these authors, declining export prices form a necessary prerequisite for the emergence of import-substituting industries.

There are also other explanations for the need to develop import-substituting industries. In particular Jawaharlal Nehru has written that government and other institutions seek to find everything necessary abroad and to import these goods following estimates of how much less expensive something may be bought abroad than inside the country. But in fact, he writes, everything that is imported from abroad is more expensive than its counterpart produced by labour in India, even if the latter requires a tenfold increase in expenditures. A different view of imports must be developed by considering not only how much cheaper they may be but also the fact that there are demographic problems in India and problems of employment, production, and economic development. (*Hindustan Times*, 11.X.1954). In short import-substitution is linked to the need to resolve problems in the utilization of labour resources and in maintaining national sovereignty.

[21] In one of ECAFE's reports it is noted that "The first phase of industrial development of most countries within the region—and in fact of all developing countries—has been characterized by the de-

velopment of import-substituting industries..." (*Industrial Developments in Asia and the Far East*, Vol. I—*Progress and Problems of Industrialization. Selected Documents presented to the Asian Conference on Industrialization, Manila, 6-20 December, 1965*, United Nations, New York, 1966, p. 94).

[22] A. Ya. Elianov, *Developing Countries: Problems of Economic Growth and the Market*, Moscow, 1976, p. 220 (in Russian).

[23] *UNIDO. Industrial Development Survey*, Vol. I, United Nations, New York, 1969, pp. 117-118.

[24] Jaleel Ahmad, *Import-Substitution and Structural Change in Indian Manufacturing Industry 1950-1966*, Cambridge, Massachusetts, August 1966, pp. 39-40; *The International Division of Labour. Problems and Perspectives.* International Symposium, Tübingen, J. C. B. Mohr (Paul Siebeck), 1974, pp. 278-279; *UNIDO. Industrial Development Survey*, Vol. I, p. 85.

[25] Because of methodological problems it is relatively difficult to establish the quantitative role that import-substitution has played in industrial development. Consider a hypothetical example. A country importing bicycles has mastered their production. This is, of course, an example of import-substitution. But the following question arises: should one attribute the establishment of a paint and varnish factory serving the new bicycle industry (as well as possibly other consumers) to import-substitution or to the influence of internal demand? Approximately equal grounds exist for both arguments. Depending on the group with which particular types of production are associated the quantitative boundaries of import-substitution also change.

In proposing a quantitative approach to establish the factor determining the development of individual industries in newly independent countries Hollis Chenery, an American economist, developed a special methodology already in the 1950s, this assumes that the increment in output is attributable to a) import-substitution; b) greater exports; c) a growth of intermediate demand; d) a growth in final demand (see: *The American Economic Review*, September, 1960). Jaleel Ahmad has applied that method in estimating that 21.6 per cent of the growth in Indian industry in 1950-1965 was attributable to import-substitution; 3.4 per cent to increased exports; 24.3 per cent to intermediate demand; and 50.7 per cent to final demand (Jaleel Ahmad, pp. 19-20). But the greater part of the growth in production in Indian industry (2/3) consisted of industrial goods possessing strong feedback. It would therefore seem appropriate to also attribute to import-substitution that part of output that is derived from intermediate demand.

[26] Calculated on the basis of *Monthly Bulletin of Statistics* for the corresponding years. The calculations are somewhat arbitrary, since the existing industrial classification does not always make it possible to distinguish between branches of light industry and heavy industry.

[27] *Monthly Bulletin of Statistics*, Vol. XXII, No. 11, November 1968.

[28] *Monthly Bulletin of Statistics*, Vol. XXVII, No. 11, November 1973.

[29] In a report of ECAFE it is noted that: "Considerations of economies of scale, paucity of resources and absence of competition suggest that import substitution leads to inefficient investment allocations when it is resorted to by a single country on a large scale." (*Economic Survey of Asia and the Far East, 1969*, Bangkok, United Nations Publications, 1970, p. 55).

[30] "It seems reasonable in the earliest stages of import substitution that the consumer goods sector have more protection. But in a more mature stage of industrialization tariff discrimination can lead to misallocation and disproportionality in the production structure, thus thwarting the growth of intermediate and capital goods industries." (*The International Division of Labour. Problems and Perspectives*, p. 289).

[31] A. Maddison, *Economic Progress and Policy in Developing Countries*, p. 195.

[32] N. M. Khryashcheva, *External Economic Relations and the Development of Countries of Southeast Asia*, Moscow, 1978, p. 15; G. G. Fedorova, *State Capitalism and the Development of Industry in Pakistan*, Moscow, 1968, p. 134 (both in Russian).

[33] *UNIDO, Industrial Development Survey*, Vol. IV, United Nations, New York, 1972, p. 70.

[34] "Emphasis should be placed on the development of exports... Administrative controls should be replaced by a better use of the price mechanism; and high-cost internal production be replaced by a reorganized agriculture and industry, capable of gradually becoming competitive and assuming their place on the world market." (Ian Little, Tibor Scitovsky, Maurice Scott, *Industry and Trade in Some Developing Countries. A Comparative Study*, Oxford University Press, London, New York, Toronto, 1970, p. XX).

[35] I. S. Diakova, *The Foreign Trade of Asia's Developing Countries*, p. 30.

[36] Calculated on the basis of *Monthly Bulletin of Statistics*, May 1979.

[37] *Industrial Development in India After Independence*, Moscow, 1964, pp. 136-137; Glery Shirokov, *The Industrialization of India*, Moscow, 1971, pp. 275-276 (both in Russian).

[38] "The level of world prices that is formed on the basis of international values may fail to provide for a sufficient level of effectiveness of exports. Yet it is also relatively low world prices for final goods (by comparison with domestic costs of production) that allow

developing countries that strongly lag behind industrially developed countries in a technical and technological sense to derive advantages from purchasing products abroad (S. Ya. Bylinyak, *Foreign Currency Problems and Economic Growth in Developing Countries*, Moscow, 1976, p. 139 in Russian).

[39] "Given uneven disparities between national and international values export-orientation may also be advantageous in those cases in which a country does not possess any particular advantages in costs of production and therefore loses a part of the value that it produces in exchange since it then receives in commodities that are still cheaper than those that it could produce itself. While the monopolies that dominate in world production and exchange activities reduce this advantage to a minimum they cannot overcome it completely." (*Financial-Economic Problems of Developing Countries of Asia*, Moscow, 1978, p. 56, in Russian).

[40] *World Industry Since 1960: Progress and Prospects*, p. 96.

[41] To establish the actual relative proportions of import-substitution, export-orientation and cooperation among developing countries is an extremely complex task. Since developing countries can engage in import-substitution independently of each other and are forced to do so because of foreign exchange shortages as well as shortages of commodities on domestic markets that process is still continuing. Today, however, it has ceased to be the object of major political struggles. At the same time developing countries are seeking to emphasize the importance of exports for obtaining additional concessions on the world market. Accordingly, the need for a further development of branches associated with export-orientation continues to be a subject of discussion in the press. As for industrial cooperation, in the case of Eastern developing countries this remains a political slogan.

Already in 1976 ASEAN adopted a decision to establish five groups of enterprises that would serve all ASEAN countries. Yet because of inadequate means and difficulties in allocating potential advantages as well as impediments created by foreign monopolies this question is still being studied.

Chapter V

[1] "A typical feature of agrarian patterns in Asian countries and in North Africa (with the possible exception of Egypt) is that natural relations continue to play a stable role in their villages" (*Foreign East Today*, Vol. I, Moscow, 1974, p. 48, in Russian).

[2] Yu. G. Alexandrov, *Southeast Asia: Problems of Agrarian Evolution*, Moscow, 1979, p. 222; A. P. Kolontaev, *Lower Forms of Production in Countries of South Asia and Southeast Asia*, p. 81 (all in Russian).

[3] The exchange economy is equal to the sum of the prices of all commodities that circulate within it, independently of whether they are produced as commodities or whether they are delivered through non-economic forms of compulsion.

[4] *Money and Commodity Relations in India's Economy*, Moscow, 1976, pp. 63-64 (in Russian).

[5] In the 1970s depreciation charges in developing countries represented approximately 5 per cent of their GDP as opposed to 12.5 per cent in capitalist countries. In the course of development the depreciation is increased by the growing volume of social wealth being reproduced, but is also reduced by the overall improved level of the economy (for example, by declines in the seed fund as yields increase).

[6] In 1950-1978 the average yearly growth in the GDP in developing countries was 4.9 per cent (in constant 1970 prices), while the average yearly industrial growth was 7.2 per cent. (Calculated on the basis of *Monthly Bulletin of Statistics* and *UN Statistical Yearbook* for the corresponding years).

[7] ESCAP document, DP/EGDPP, 7.VII.1979, p. 97.

[8] This does not of course mean that no new types of manual factory production equipment are being introduced or will continue to be introduced in the future. In the mid-1970s in Pakistan, for example, a cattle-driven machine began to be introduced for transplanting rice. (*Rice Transplanters*, Manila, 1978, p. 14). But this does not overcome rigorous limitations on such equipment generally.

[9] *The State and Agrarian Evolution in Developing Countries of Asia and Africa*, Moscow, 1980, p. 8 (in Russian).

[10] "In most poor countries of Asia ... government policy discriminates in favour of the large landlord. Exchange rates are overvalued and this reduces the local currency cost of imported equipment. In addition, foreign exchange licensing schemes often are designed specifically to encourage the 'modernization'. i.e. mechanization, of agriculture. Government assisted or managed rural banks provide inexpensive credit to those who own large pieces of land. Training centres for tractor drivers and mechanics are financed by government. Fertilizers, weedicides and insecticides are subsidized, and diesel fuel and electricity often are as well. Irrigation facilities. dams and tubewells, are financed from general tax revenues and the water is distributed free of charge or at negligible cost to large landowners. (Keith Griffin, *The Political Economy of Agrarian Change. An Essay on the Green Revolution*, Harvard University Press, Cambridge, Massachusetts, 1974, p. 80).

[11] *The State and Agrarian Evolution in Developing Countries of Asia and Africa*, p. 145.

[12] But in certain cases government activities may exert a depressing influence on direct producers. A vivid example was provided in Burma in the 1970s when the state made use of monopolistically low prices to redistribute the agricultural net product to its advantage.

[13] "...The lower is the relative cost of material inputs in agriculture, the more widespread will be the adoption of an innovation..." (Keith Griffin, *op. cit.*, p. 46). In particular, survey carried out in the Philippine Islands has shown that only 48.2 per cent of farmers owning land plots of less than 2 hectares made use of herbicides but 85.5 per cent employed insecticides. (*Ibid.*, pp. 46-59).

[14] The number of agricultural tractors in developing countries of Asia and North Africa increased from 229.5 thousand to 904.2 thousand between 1961 and 1976. During the same period the number of harvesters increased from 24.2 thousand to 40.5 thousand. Nearly 2/3 of the harvesters were employed in three countries, namely, Turkey, Algeria, and Iraq (*Statistical Yearbook 1977,* United Nations, New York, 1978, pp. 100-105).

[15] "Rapidly growing unemployment, a low level of demand for labour power on the part of modern capital-intensive industries, and the constant threat of a further deepening of social conflicts in view of the scale of unemployment compel governments to encourage labour-intensive forms of production." (E. A. Bragina, *Developing Countries: State Policy and Industry,* Moscow, 1977, p. 77, in Russian).

[16] Calculated on the basis of *UN Statistical Yearbook* for the corresponding years.

[17] *Developing Asia,* Moscow, 1977, p. 16 (in Russian).

[18] This is also true of small cities in Eastern countries, where a substantial part of the population is associated with agriculture.

[19] "...The decline in the share of natural economic units did not produce any significant shifts in the character of unemployment. For the relative decline in the role of non-commodity exchange forms of production resulted primarily from increased labour productivity in the money and commodity sector of economies. In short, increased market oriented production was not matched by similar increases in the number of persons engaged in the sphere of money and commodity relations" (A. Ya. Elianov, *Developing Countries: Problems of Economic Growth and the Market,* p. 65, in Russian).

[20] *Finance and Development,* International Monetary Fund and the World Bank Group, Washington, Vol. 10, No. 1, March 1973.

[21] ESCAP documents, DP/EGDPP 6/1, 7 July 1979, p. 94.

[22] Calculated on the basis of *The National Sample Survey,* No. 230, Tables with Notes on Consumer Expenditure, New Delhi, 1977.

Chapter VI

[1] "Because of the low rate of return on capital there is not enough investment; and what investment takes place is mainly directed to saving labour and reducing other costs rather than expand-

ing capacity and providing additional jobs. As cyclical unemployment falls, a more persistent form of structural unemployment will, in this view, emerge because of a mismatch between the stock of capital and the supply of labour." (Paul Mc Cracken, *Towards Full Employment and Price Stability*, OECD, Paris, 1977, p. 37).

[2] Violations of synchronization and proportionality in the development of individual sectors of the economy as is generally the case industry is 86 times larger than in the mid-1900s. The volume of world capitalist economy or else a sharp decline in the effectiveness of social capital investment and of production activities.

[3] "The volume of investment per worker initially required in industry is 85 times larger than in the mid-1900s. The volume of capital needed to open a new plant in heavy industry today is 425 times higher than in 1845, while in the case of metallurgy it is 2,000 times higher." (N. P. Shmelev, *Problems of Economic Growth in Developing Countries,* Moscow, 1970, p. 50, in Russian).

[4] Edgar O. Edwards, *Employment in Developing Nations*, Report on a Ford Foundation Study, Columbia University Press, New York and London, 1974, p. 87.

[5] Calculated on the basis of *Yearbook of National Accounts Statistics 1978,* United Nations, New York, 1979.

[6] An ability to overcome the investment barrier is a basic factor increasing the differentiation of Eastern countries. Petroleum-exporting countries and countries that have attracted substantial volumes of foreign capital possess nearly unlimited opportunities for introducing new technology and attracting foreign specialists to service it. This is why they have shown relatively high rates of growth in labour productivity. Conversely, in most Eastern countries their internal accumulation and the inflow of foreign capital is relatively modest and the introduction of new technology is held back by a shortage of resources. This produces an increasing divergence in the labour productivity of these two groups of countries.

[7] Calculated on the basis of *Yearbook of National Account Statistics, 1978.*

[8] Calculated on the basis of S. A. Kuzmin, *Developing Countries: Employment and Capital Investments,* Moscow, 1965, pp. 41-43, 46-47, 58-59 (in Russian).

[9] "The great and growing gaps between the income levels and therefore living standards of different countries, combined with increasing awareness of these gaps, may tend to push up the general propensity to consume of the poorer nations, reduce their capacity to save, and incidentally strain their balance of payments." (Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries*, p. 58); Joan Robinson poses this question even more sharply: "...the doctrine that unequal distribution of income is helpful to growth because the rich save, is the reverse of the truth, for there would

be less unnecessary expenditure if they were less rich." (Joan Robinson, *Aspects of Development and Underdevelopment*, Cambridge University Press, Cambridge, London-New York-Melbourne, 1979, p. 13).

[10] Between 1948 and 1977 for example the share of fixed capital in operating capital in India's processing industries increased from 40.5 per cent to 63.1 per cent. The resulting increase in the organic composition of capital and the capital-labour ratio reduced the potential need for attracting additional labour by 1.52 million persons.

[11] Ya. N. Guzevatyi, Asia's Demographic-Economic Problems, Moscow, 1980, p. 58 (in Russian).

[12] In this respect the situation in Eastern countries was worse than in developing countries as a whole, where extraction and manufacturing industries, transportation, communications and construction activities absorbed approximately one-sixth of the overall increment in labour power (Paul Bairoch, *The Economic Development of the Third World Since 1900*, Methuen and Co., Ltd., London, 1975, p. 160).

[13] *Industry 2000: New Perspectives. UNIDO, Third General Conference of UNIDO, New Delhi, India, 21 January-8 February 1980*, Distr. General ID/Conf., 4/3, 30 August 1979, pp. 89, 237.

[14] *World Industry Since 1960: Progress and Prospects*, p. 271.

[15] In many cases instruments of labour in Eastern countries are so archaic and ineffective that the transfer of even traditional means of production from other sub-regions may produce a sharp increase in unemployment. For example, in Indonesia "the spread of inexpensive tools such as the sickle has reduced the demand for farm labour". (*Bulletin of Indonesian Economic Studies*, Australian National University, Canberra, Vol. XIV, No. 1, March 1978, p. 93).

[16] A relatively clear presentation of the full range of such views is provided by N. A. Simoniya in an article entitled "Concerning the Fate of Capitalism in Asian Countries" in *Asia and Africa Today*, No. 2, 1979; V. A. Yashkin, "The State Formation in Multiformation Economies" in *Asia and Africa Today*, No. 3, 1979; "The Bureaucratic Bourgeoisie—Bureaucratic Capital—the State Sector and State Capitalism" in *Peoples of Asia and Africa*, No. 5, 1979 (all in Russian).

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